

2003 ANNUAL REPORT



Storming to the forefront in the Driving World





Going global, and going for the top.  
**All - out.**



Kia Motors has already begun its powerful advance onto the world stage, backed by a global R&D network, world - class quality, and premium customer services. The company is applying core technology and producing environment - friendly vehicles to emerge as one of the top players in the world automotive industry of the 21<sup>st</sup> century. With Kia, you can experience the pride of leadership in being the best.

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Kia Motors Corporation  
Chairman & CEO,

**Mong-Koo Chung**

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## Year 2004

### A Chapter for Stability and Momentum in Our Global Operation

The automobile industry has a profound impact on the stability and strength of national economies. In Korea, this dynamic sector is influencing a widening portion of the country's economy, particularly through its tremendous creation of jobs. Kia Motor's expanding role continues to shape this crucial industry.

Kia, although late entering the global automobile complex, has steadily closed the technology gap with industry leaders in recent years. This trend demonstrates Kia's competitive nature and future as a prominent automotive manufacturer in the global market. Kia Motors is proud of its many successes and looks forward to a future of continued excellence in shaping the automotive industry of Korea.

The year ahead will be marked by consolidation and expansion of our global enterprise. We will secure the resources required to be a major global player by continuing to raise our brand value, develop our human resources and grow operations, which will allow us to be a global player.



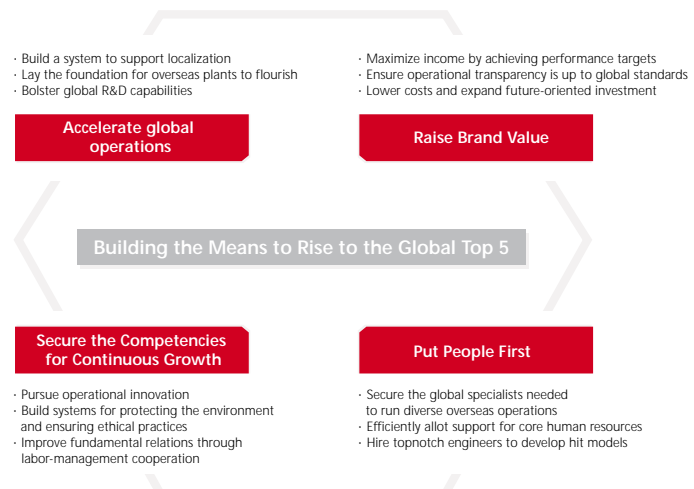
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Kia Motors Corporation  
President & CEO,

**Kook-Jin Yoon**

Kia Motors boasts 60 years of experience while embracing a new sprit of challenge. Our employee resolution is to make the Kia - Hyundai partnership fifth in world automobile production by 2010.



To Our Shareholders :

Our company has certainly been faced with numerous challenges during 2003. Yet, I am happy to announce that in spite of these difficulties, we have managed not only to further strengthen our operation, but also to make another big stride forward. Although we experienced a 4% year - on - year drop to 858,697 units sold, our sales revenue increased by 5.6% to just under KRW12.84 trillion. Net profits for the period rose by 10% to KRW705.4 billion; our best performance ever.

Our aggressive marketing effort in the US, Europe and China pushed exports to 539,902 units, up an impressive 19.8% year on year. Our newly established European subsidiaries, having introduced the Sorento, Carens and Carnival diesel lines, provided Kia with the fastest sales growth of automotive makers in the European market. Meanwhile, the TianLiMa has been a huge success in China, driving up Kia sales there impressively. Kia Motors' aggregate exports of finished models surpassed the 4 million mark in 2003, and the company received the US\$5 Billion Export Tower Award from the Korean government for the year.

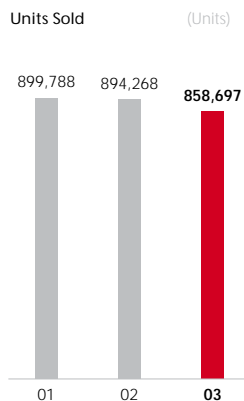
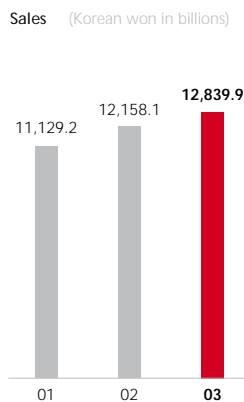
The past year has also given rise to major enhancements in our product quality. Our product rankings have risen steadily on the North American IQS index, which surveys American consumers. Additionally, the repeat buyer rate published by JD Power and Associates ranked Kia Motors 12<sup>th</sup>; again demonstrating that our sustained efforts to improve product quality are now paying off. Kia's prospects for membership among the elite club of world - class automotive manufactures are bright, indeed.

Finally, new models like Opirus and Cerato have boosted our competitiveness in the passenger vehicle market, while we improved our financial health by lowering our debt - to - equity ratio to 109.8% by the end of 2003. We completed the capacity expansion of our Gwangju plant to 350,000 units a year and relocated our research center, maximizing the synergy of our new product development competencies. We have also established a mid - /long - term brand strategy for enhancing our brand value significantly.

Certainly, none of these achievements could have been realized without the support of you, our shareholders. All of us at Kia will continue to honor the trust you have invested in us by working hard to maintain this robust growth and advancement.

With that in mind, it is important to mention that this coming year will be trying for us. Raw material prices are expected continue to rise steadily, while the Won is appreciating sharply against the Dollar. Moreover, prospects for Korean economic recovery in the current domestic market are bleak.

Even so, Kia Motors has set ambitious operation goals for this year, aiming at a 27.4% year - on - year growth, raising finished unit sales to just under 1.1 million vehicles. We aim to earn KRW1.2 trillion in ordinary income on total sales exceeding just over KRW15.8 trillion.



## Summarized Non - Consolidated Balance Sheets

(Korean won in millions)

	2003	2002	2001
Current assets	3,251,294	2,921,333	2,419,877
Non - current assets	7,959,838	6,191,315	6,018,589
<b>Total assets</b>	<b>₩ 11,211,132</b>	<b>₩ 9,112,648</b>	<b>₩ 8,438,466</b>
Current liabilities	3,839,030	2,679,543	2,540,899
Long - term liabilities	2,029,923	2,339,421	2,504,551
<b>Total liabilities</b>	<b>5,868,953</b>	<b>5,018,964</b>	<b>5,045,450</b>
Capital stock	1,848,652	1,848,652	1,847,987
Capital surplus	1,700,956	1,699,924	1,699,924
Retained earnings	841,078	316,427	- 324,952
Capital adjustments	951,493	228,681	170,057
<b>Total shareholders' equity</b>	<b>5,342,179</b>	<b>4,093,684</b>	<b>3,393,016</b>
<b>Total liabilities and shareholders' equity</b>	<b>₩ 11,211,132</b>	<b>₩ 9,112,648</b>	<b>₩ 8,438,466</b>

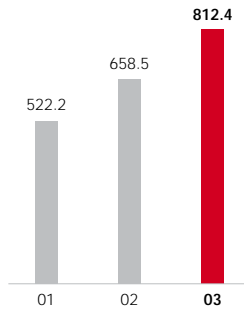
## Summarized Non - Consolidated Statements of Income

(Korean won in millions)

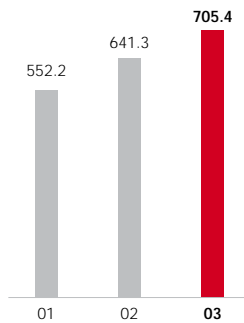
	2003	2002	2001
<b>Sales</b>	<b>₩ 12,839,881</b>	<b>₩ 12,158,113</b>	<b>₩ 11,129,204</b>
Cost of sales	10,084,078	9,581,392	8,531,616
<b>Gross profit</b>	<b>2,755,803</b>	<b>2,576,721</b>	<b>2,597,588</b>
Selling and administrative expenses	1,943,363	1,918,228	2,075,347
<b>Operating income</b>	<b>812,440</b>	<b>658,493</b>	<b>522,241</b>
Other income	456,205	542,725	404,375
Other expense	415,046	399,908	502,465
<b>Ordinary income</b>	<b>853,599</b>	<b>801,310</b>	<b>424,151</b>
Extraordinary item	-	-	197,301
<b>Income before income tax</b>	<b>853,599</b>	<b>801,310</b>	<b>621,452</b>
Income tax expense	148,176	159,931	69,217
<b>Net income</b>	<b>₩ 705,423</b>	<b>₩ 641,379</b>	<b>₩ 552,235</b>



**Operating Income**  
(Korean won in billions)



**Net Income**  
(Korean won in billions)



To achieve these goals, our focus for 2004 is on achieving stable labor - management relations, a prerequisite for improved productivity and product quality, implementing marketing strategies for launching new models and ensuring steady growth in overseas markets.

Meanwhile, this year marks the opening of a new chapter in Kia Motors' global operation. Our Chinese plant will begin producing the Carnival, and annual output will be expanded from the current 50,000 to 130,000 units. An additional plant will be built in Zilina, Northern Slovakia, with an initial annual output capacity of 200,000 vehicles, bolstering our European operations.

Regarding investments, we plan to allocate just under KRW1.43 trillion, or about 9% of annual sales revenue. These funds are earmarked for developing new models as well as constructing a new engine and transmission plant to boost our potential for future growth.

To give us a stronger competitive edge, new models such as the Bongo III(Medium Van) and the Morning/Picanto(mini - car) have already been released early in 2004. One of our most ambitious projects, a new compact SUV called KM, will be on the market by June. These new models, once available in the US and European markets, will greatly augment Kia's brand value.

The year 2004 will be a crucial juncture for the future of Kia Motors. We will be tapping into the business potential of our global operation to the fullest extent, reaching to surpass the million - car mark in sales and the trillion - Won mark in profit.

We believe that there is no challenge or ambition too high for the 30,000 person team we call Kia Motors, so long as we stand united. We are committed, more than ever, to producing results and reaching our high goals, to reward you, our shareholders, for your support and trust.

We appreciate your continued support and interest and our warmest wishes to each and all of you for the year ahead.

**Kook - Jin Yoon**  
President & CEO

An aerial photograph of a coastline. The ocean is a deep blue-grey, with white, frothy waves breaking in parallel lines onto a dark, sandy beach. The perspective is from a high angle, looking down at the shoreline. The text is overlaid on the left side of the image.

**Forcing our Wheels into the  
Leader's Domain.**

**Kia Motors**

Rigorous preparations were made from the initial design stage to position the Opirus for the global market. The development project for this luxury full - sized sedan cost ₩300 billion and took 36 months to complete, with all available resources being mobilized for the production and marketing effort.

Kia Motors' global expansion continues to accelerate while the brand name is steadily enjoying broader recognition. Leading testing institutions around the world have endorsed Kia's product quality and consumer love of the company's special services. The company continues to break into new markets with the determination to be a proud global leader.



## Passenger Line - up



### >> Opirus / Amanti a Dream Sedan

Any car fine enough to lead the times provides special satisfaction. The Opirus boasts the magnificent styling, cutting-edge technology and extravagant interior to be the trendsetter today. This is the ultimate sedan - the standard to which all other sedans aspire.



### >> Regal Proud to Be the Best

The value of excellence is self-evident. The Regal is defined by unrivaled performance, a luxurious interior and uncompromising safety. Even the most discriminating driver would be proud to own this exceptional sedan.



### >> New Optima / Magentis Quieter and Safer than Ever

This sedan is destined for greatness. Unique styling projects a dignified image, while state-of-the-art engineering offers the best possible ride and comfort in a mid-sized sedan.



### Competitive Edge in Passenger Vehicles Sharpened by Opirus and Cerato

Kia Motors, unchallenged in its number - one position in the RV (SUV and MPV) market with the Sorento and Carnival II, is now setting its sights on the passenger vehicle market for this year. Competitiveness in Korea has been boosted with the launch of the full - sized luxury Opirus in March, followed by the Cerato, a compact sedan, in November. Opirus, having already been launched in Europe and the US, has become the first full - sized passenger car from Korea to compete in the overseas luxury vehicle markets. The Cerato was developed at Kia's special pilot plant using a state - of - the - art quality assurance system. This flagship car boasting unprecedented quality sports a sleek European - style exterior and has scored five stars in the NCAP safety test. The model is loaded with top - grade components and features like the curtain airbag, which will continue to attract strong interest and attention within the C - segment car market.



### 4 Millionth Unit Exported, US\$ 5 Billion Export Tower Award Received

Kia Motors exported its first vehicles in 1975 with the shipment of 10 Brisa Pickups to Qatar. The company's overseas marketing operations acquired a massive export network through its North - American distribution of the Pride in 1987. Kia successively passed the million - car export mark in 1995, the 2 million mark 1998 and the 3 million mark in 2001. In November this year, aggregate exports broke 4 million - units. Kia Motor's market share is growing at a dazzling speed, particularly in the US and Europe. Nine years after its automobiles first entered the US market, Kia Motors' cumulative sales surpassed 1 million units there in February 2003. Meanwhile, Canadian sales reached 100,000 units in September, only 48 months after the company's market debut. Kia Motor's remarkable success received official recognition on November 28 during the 40<sup>th</sup> International Trade Day, when the company was awarded the US\$5 Billion Export Tower Award.

### Average Exported Automobile Price Reaches US\$ 10,000

The average price for Kia's exported vehicles has been rising steadily. The average price per unit was a mere US\$8,700 in 2000, climbed to US\$9,400 in 2001, US\$9,800 in 2002, and on to US\$11,200 in 2003. Such a sharp rise in price is largely due to expansion of value - added models. SUVs and large - size passenger cars are occupying a greater portion of the sales mix, which once almost exclusively

consisted of low - end and mid - market models. The improved prices indicate Kia Motors is not only selling more cars each year, the company is also growing into a maker of high - quality, high - value - added automobiles.

### Notable Expansion in the China Market

The TianLiMa, produced and marketed by DYK(Dongfeng - Yueda - Kia), a joint venture with local automobile makers, proved to be a huge success, giving rise to a 'Korean car fever' in China. A mere 3 months after its market debut, sales of the compact model soared to an impressive 10,000 units, and by 2003, a total of 43,900 cars were sold. Chinese respondents to consumer surveys described the TianLiMa as 'the best - quality and the most dynamic car,' 'the car the most favored by young adult drivers,' and 'a contemporary car in keeping with the temperament of our times.' The TianLiMa has indeed captured the local consumers' hearts, becoming one of the most popular economy models in the market. Dongfeng - Yueda - Kia sold close to close to 51,000 units in 2003, a 150% rise year on year, and the upward trend is expected to continue.



### Sports Marketing Beefed Up for Heightened Brand Recognition

Kia Motor's sports marketing operation, launched as an effort to boost brand recognition, turned out to be right on the mark. The positive outcome of the campaign has prompted Kia Motors to extend its contract for the main sponsorship of the Australian Open, originally entered for the Australian Open 2003, for five more years. The company has also concluded a three - year contract to be an official sponsor for the Davis Cup tournaments in Europe and Africa through 2005 in an all - out bid to broaden recognition of the Kia brand. Meanwhile, Kia sponsored the Korean national team at the 21st Winter Olympics early in 2003, and the squad garnered two gold medals. The company was also the official sponsor for Le Tour de Langkawi 2003, one of the world's most prestigious bicycle races.



### Inaugural Year of Environment Management

In June, Kia Motors proclaimed 2003 to be the inaugural year of its new environment management initiative, and the company launched an ambitious campaign to bolster environmental protection activities company wide. Importantly, all domestic operations have now been ISO 14001 certified, starting with the Hwasung plant in May, the Gwangju plant in November, and the Sohari plant and all other service centers in December. Kia Motors is intent on expanding the scope of this effort to protect the environment, steadily reducing pollution emissions, reinforcing the environmental quality monitoring system and broadening participation in community environment projects.



### Expanded Overseas Sales and Service Infrastructures

Kia Motors expanded its pool of European dealerships from 1,100 to 1,300 in 2003, and strengthened its dealer networks across the continent. These efforts were part of a move to expand the overall overseas sales network and included the opening of the "Europe Technical Hotline," an internet resource providing real-time support on technical issues to service managers and mechanics from overseas sales centers and dealerships. The Hotline was designed to maximize customer satisfaction by enabling overseas servicing staff to provide speedy support to local customers. The company has also opened a global web portal that will further increase customer satisfaction through smoother overseas sales and service operation and more efficient information sharing. The portal will be the cornerstone of Kia's Customer Relationship Management platform.

### Sorento Performance Quality Tested and Proven

The superior quality and performance of Kia's SUVs were proven to the world once more in 2003. The Sorento received the Consumer Satisfaction Quality Award in the mid-size SUV sedan category from Strategic Vision, an authoritative American consulting firm specialized in the automobile industry, and a customer satisfaction



award from AutoPacific, another automotive consulting firm. The vehicle has created a sensation in the US market. It earned five stars (the maximum score) on a crash safety test administered by the US National Transportation Safety Board, was selected as the best SUV under US\$25,000 by the New England Motor Press Association, and won the "Best SUV Award" from the Northwest Automotive Press Association.

### Consolidated Hyundai - Kia R&D Center Launched

In May 2003, Hyundai Motor and Kia Motors relocated their R&D facilities at diverse locations to the Namyang Research and Development Center. The centralized facility was expanded and realigned to be more competitive in the global automotive industry, shorten the development cycles and cut costs by sharing platforms and components among different automobiles. This state-of-the-art R&D center is the largest of its kind in Asia and can be used for performing basic research and all processes required in new vehicle development on site. In addition, the Hyundai - Kia Design & Technical Center opened in California in

February 2003, followed by the opening of the Hyundai - Kia Europe R&D Center in September to form a global R&D network.



### Fastest Sales Growth in EU

Kia Motors achieved the fastest sales growth of any automaker in the EU market during 2003. According to the ACEA (Association des Constructeurs Européens d'Automobiles), sales of Kia automobiles in the EU soared 48.4%, from 72,529 units in 2002 to 107,631 in 2003, elevating the company's market share by 0.8%. Mazda recorded the second-fastest annual sales growth rate of 30.4%. Although, overall automobile sales in Europe were 1.3% lower in 2003 than in the previous year, the market is expected to rebound in the coming year, Kia Motors plans to continue its blistering sales growth rate by introducing new models that cater to European tastes.







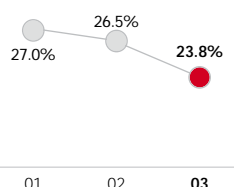
## Sluggish Domestic Demand and Shrinking Passenger Vehicle Sales Required a New Approach

The "X-Trek Tour to Experience Nature" program was kicked off as a marketing tool as well as a way to elevate the company's environment-friendly image.

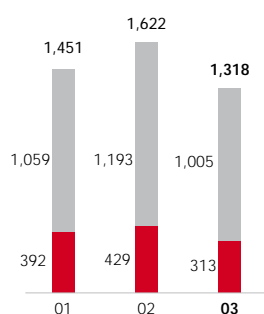
Press conference for the initial launch of the Serato, as Kia takes aim at passenger car markets at home and overseas in 2003.



Market Share



Sales Volume  
(units in thousands)



Source KAMA (Korea Automobile Manufacturers Association)

## Lower Results in Spite of Best Efforts

Despite extraordinary efforts to cope with deteriorating domestic demand, the market slump exceeded even the worst-case scenario. Domestic automobile sales for the year totaled a mere 319,795 units, 28% lower than the previous year's figure. The Korea Automobile Manufacturers' Association (KAMA) reported Korea's industry-wide demand dwindled 18.7% year on year in 2003. In addition to a general economic downturn, poor passenger vehicle sales and production halts from protracted strikes at Kia plants resulted in a reduction of Kia Motor's domestic market share from 26.5% in 2002 to 23.8% a year later.

## Building Momentum for Long-term Competitiveness

Some very positive developments occurred as well, however. The launch of the Opirus and Cerato has geared Kia Motors up for long-term competitiveness in the passenger vehicle market. The Opirus has emerged solidly as Kia's flagship model, and an aggressive marketing campaign has been undertaken to broaden the Cerato's hold within the target segment of the passenger vehicle market. Faced with severe competition, Kia has focused on identifying prospective customers and winning them over with sales promotions. The company is also engaging in sports and cultural marketing as well as joint-marketing campaigns with other popular brands to enhance the Kia image. Importantly, the customer database is being used successfully to enhance sales effectiveness, while training programs and seminars have greatly boosted professionalism of the sales personnel. The Customer Satisfaction training program has been reinforced, and personalized servicing programs are offered to new customers. A computer telephony interface system has been adopted to make customer service more responsive to requests, thus significantly increasing customer satisfaction.

## Gathering Forces for a New Growth Surge

In 2004, Kia aims to sell 144,000 passenger vehicles, 177,000 RVs (SUVs, Mini-Vans, MPVs), and 94,000 commercial vehicles, 415,000 units in all, for a 27% share of the domestic market estimated at 1,520,000 units by KAMA. To this end, The company will continue to strengthen competitiveness in the passenger vehicle market with the Cerato, Opirus and Morning. The strong Kia brand in the RV segment will be maintained, and the company's number two position in Korea will be strengthened. Kia will also develop new models that can compete effectively with surging imports of foreign cars into Korea.





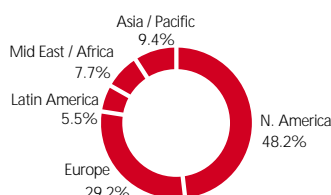
## Differentiation Strategy Vanquishes Adversity - 500,000 Cars Exported, Amounting to US\$5 Billion

Kia Motors has received high marks from overseas dealers, consumers and journalists alike while achieving record-breaking sales growth outside Korea in 2003.

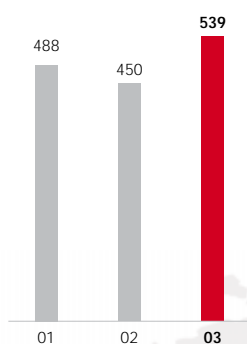
On September 22, 2003, *the Morning Queen* arrived at Vancouver's New Westminster Harbor, carrying the 100,000th vehicle exported to Canada in the past 48 months.



**2003 Export Breakdown by Region**  
(Based on Number of Shipment Units)



**Export Volume Growth**  
(units in thousands)



Source: Company data

## Astounding Growth in Spite of the Global Economic Slowdown

In a stark contrast with the lackluster domestic sales, exports jumped 19.8% year in year to a phenomenal 538,902 units, largely offsetting the under-performance on the home front. This was the first year ever for Kia to exceed 500,000 units in finished car exports. The total value was worth over US\$5 billion, as the average price per unit also surpassed US\$10,000. Notably, in November, aggregate exports passed the 4 million-car marks.

## Galloping Growth in the EU Market

By region, the sharpest growth was realized in the EU market, where exports amounted to 156,675 units, or 29.2% of total exports, nearly 7% higher than the 21.9% figure for 2002. The EU was the second largest export market after the US, and Kia's phenom sales growth there was largely due to the expansion of the regional sales network and an improved product mix, introducing diesel engine models and other new models better suited for European tastes. Kia also enjoyed robust sales increases in the Asia Pacific and Canada, regions that now contribute significantly to overseas operations.

## An Upgraded Website for Global Users

Starting from August 2003, non-Korean visitors to the Kia website could be redirected from [www.kiamotors.com](http://www.kiamotors.com) to the new overseas website. Dealers and customers, both inside and outside Korea can access Kia information more easily, and new online services were introduced from September 1<sup>st</sup>.

## The Challenge to Break New Records Persists

Kia has set the 2004 export goal at 380,000 passenger vehicles, 257,000 RVs (SUVs, Mini Vans, MPVs), and 42,000 commercial vehicles for a total of 679,000 units shipped. To achieve this objective, the company will focus on launching the Picanto, Cerato, Opirus, KM and small-sized commercial vehicles; boosting brand image through stepped-up corporate advertising, and strengthening sports marketing through the sponsorship of the Australian Open and the Davis Cup tennis tournaments. Sales operation efficiency will also be raised by increasing the number of directly operated European sales centers and improving and broadening the dealership network.

## United States

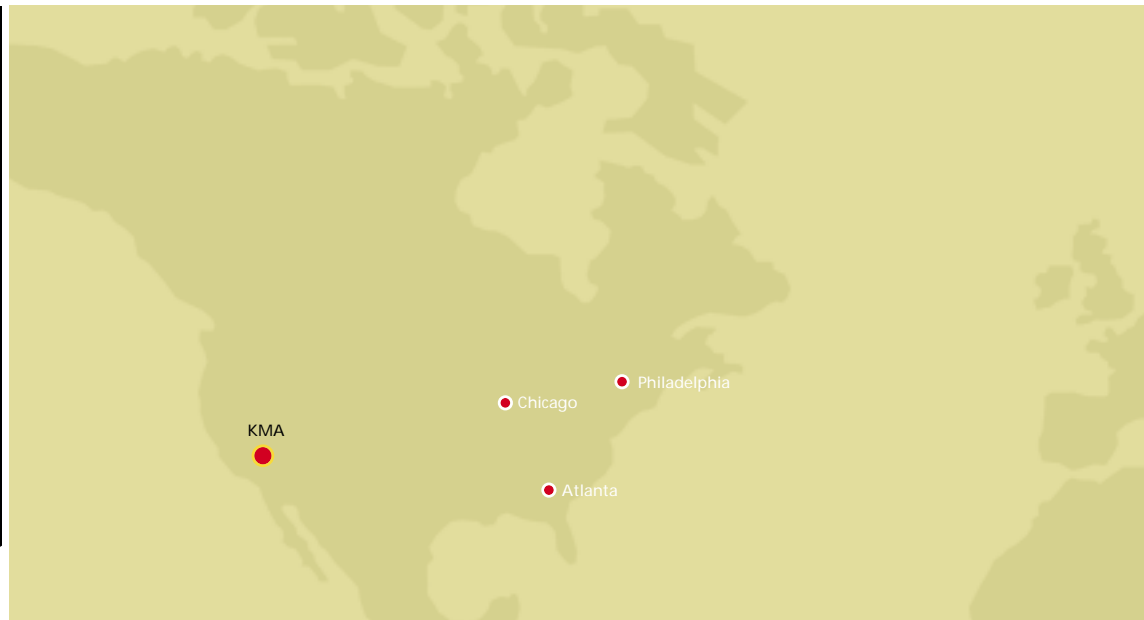
# Contending with the World's Best in the World's Largest Market

Kia Motors America Inc.

**Regional HQ**

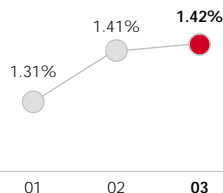
- Location : Western Region(Irvine, CA)
- No. of Dealers : 133
- Location : Eastern Region HQ (Philadelphia, PA)
- No. of Dealers : 174
- Location : Central Region HQ (Chicago, IL)
- No. of Dealers : 139
- Location : Southern Region HQ (Atlanta, GA)
- No. of Dealers : 191
- Total : 637

**PDC Center** : Chino, Allen Town, Lawrenceville





Market Share



Sales Volume  
(units)



· Source: Company data

### Still Going Strong

The US demand was sluggish, heavily affected by an economic slowdown. Despite offering a bold incentive package, Kia's total automobile sales amounted to 237,417 units in 2003, only slightly higher (0.1%) than in the previous year. While sales decreased by 6.6% in passenger vehicles, sales in the more profitable RVs segment jumped 11.6%, despite an inventory shortage following strikes in September and October.

### Boosting Brand Value through Product Quality

A survey conducted by J. D. Power and Associates, the American automobile market research firm, revealed that the repeat buy rate of Kia products has quintupled over the past two years to 50%. Kia Motors is now ranked 12th in terms of repeat customers. Meanwhile, the *New York Times* praised the Sorento in a test drive review: "If the best compliment you can make about a car is that this car can be seriously considered for purchase, the Sorento seems to be just that car." These gratifying results were made possible by a determined effort to improve quality improvement and engage in customer - centered marketing campaigns.

### Stronger Product Mix to Increase Market Share

US sales are expected to see strong growth into 2004 on the expanded sales of the Cerato and Opirus and the second - half introduction of the KM, a new - concept SUV. All - out marketing and PR campaigns are planned to ensure a successful market debut for the Amanti, Cerato and KM, while quality enhancement efforts will continue unabated. The company will work to improve the brand image still further by achieving a higher IQS score and stepping up sales support to dealers for optimal competitiveness.

Kia dealers throughout the US enjoyed a brisk business in 2003, thanks to the improved price-to-performance level of their products.

A nationwide dealers' convention is held each year to improve information exchange and secure a solid position in the US market.



## Europe

# Determination and Steady Growth Paving the Way toward Prominence in the European Automotive Market

### Regional HQ

- KME : Kia Motors Europe (Bremen, Germany)

### Europe Sales Subsidiaries

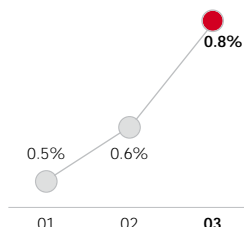
- KMD : Kia Motors Deutschland (Frankfurt, Germany)
- KMUK : Kia Motors United Kingdom
- KMAS : Kia Motors Austria
- KMBL : Kia Motors Belgium
- KMS : Kia Motors Sweden
- KMIB : Kia Motors Iberia
- KMP : Kia Motors Poland
- KMH : Kia Motors Hungary
- KMCZ : Kia Motors Czech Republic
- KMIE : Kia Motors Ireland

### Kia Motors Europe Manufacturing Plant

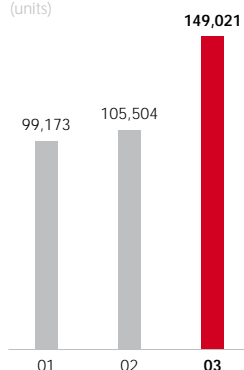
- Zilina, Slovak Republic



Market Share



Sales Volume  
(units)



### Number One Sales Growth - a Hard Act to Follow

Although the EU market experienced a decline in demand, Kia Motors achieved an unprecedented 48% growth in sales during 2003, the fastest of any automaker. This strong showing was due to an increased number of directly operated sales centers, an expanded regional sales network, and the new diesel models for the Sorento, Carens and Carnival. Kia's share of the European market surpassed 1% for the first time.

### New Technical Hotline Improves Maintenance Service

The Technical Hotline first opened in Germany, Austria and the UK in January 2003 and is now available across Europe. This website provides real-time technical support to managers and mechanics at overseas sales centers and dealer service centers. In 2004, the Customer Assistance Center will be launched to receive customer requests and feedback, and a Roadside Assistance program will be introduced. A Customer Relationship Management system is planned for 2005 to better track individual customer histories and send personal notifications on vehicle maintenance and servicing.

### Sprinting Ahead

Just as in 2003, Europe promises to be a region where Kia Motors can achieve strong growth in the coming year. The company expects to sell 148,000 passenger vehicles, 78,000 RVs and 12,000 commercial vehicles - 238,000 units in all - in Europe in 2004, a 50% increase over the 2003 total. To this end, the company will introduce the entry-level Picanto, and expand its diesel lineup with a new Cerato model and the KM, a compact SUV. The EU office and dealer network will also be overhauled and further investments made in sports marketing as part of market expansion efforts prior to the construction of a European plant.

The dealers' convention in the UK strengthens local presence in a market that, along with Germany, is leading Kia's advance across Europe.

The Picanto is unveiled at the Frankfurt Motor Show. This entry-level automobile was styled to cater to economy-minded European drivers.



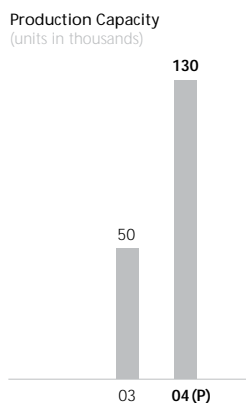
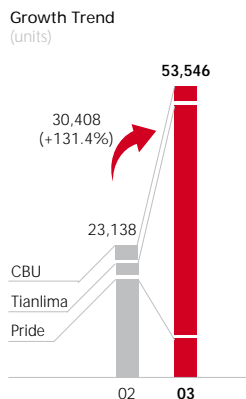
## China

# Lead in China and Lead the World

### Dongfeng Yueda Kia Motors

- Location : Yancheng, Jiangsu, China
- Total Capital : US\$ 70 million
- Kia Invested Capital : US\$ 35 million
- Ownership : 50%
- Capacity : 50,000 units p.a. (2003YE) Planned expansion to 130,000 units by 2004
- Product Focus : Small / compact passenger cars / Mini - Van
- Other Shareholders : Yueda Group (25%)  
Dongfeng (25%)





### TianLiMa Captivating China

The TianLiMa, designed exclusively for the China market mode and locally produced and distributed, is achieving stupendous growth. A total of 43,934 units were sold during 2003, making it China's best selling economy car. The robust sales performance continues to be strong despite bold incentives and drastic price reductions offered by big name competitors.

### Continued Success Expected

Kia will exploit its current momentum in China, a strategically important, high-growth market. The company will introduce a new Carnival model in the second half and expects sales for the year to increase 39% to 71,000 units.

The Pride and TianLiMa have already proven the strong potential for success in China. The country is experiencing a personal transport vehicle boom, and Chinese consumers are showing growing interest in passenger cars as well as SUVs and vans. Company officials raised their estimation of sales prospects for the Carnival and decided to launch it earlier than originally planned. Carnival production began in Yencheng, Jiangsu Province in 2004, and annual output capacity will be increased from the current 50,000 units to 130,000 units at year's end, and 400,000 units by 2010. This reflects an overseas production expansion plan that aims to make Kia and Hyundai the world's fifth largest automaker by 2010.

### A Resounding Reception for Opirus in China

Kia Motors participated in the Shanghai Motor Show between April 21 and April 24, 2003, showcasing ten models including the new -concept KCV II, Opirus, Optima / Magentis, Spectra, Rio, Sorento, Carnival, Carens and two TianLiMa produced by Dongfeng - Yueda - Kia. At a preshow press conference on the 20th, Kia officially unveiled the Opirus, which drew a highly favorable response from local journalists, who were impressed by its distinguished and classy design.

Surging local production and sales have made the TianLiMa a top selling economy car in China.

A visit to the Kia Head Office by Chairman & General Manager of the Jiangsu Yueda Group, a major Chinese partner, has helped to boost cooperative ties.







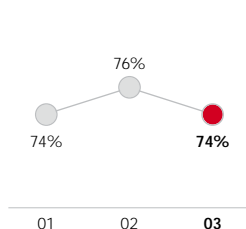
## Beyond Quantity, Kia to Focus on Building Brand Value as a maker of High-end Automobiles

Customer satisfaction has improved after Kia implemented various pre-shipment procedures to ensure new cars are delivered at their very best.

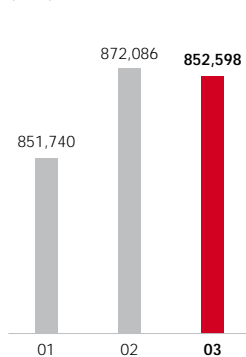
The Namyang Research and Development Center, jointly operated by Kia Motors and Hyundai Motor, has made quality enhancement its top priority. The state-of-the-art facility boasts some of the best engineers in the business.



Utilization Rate

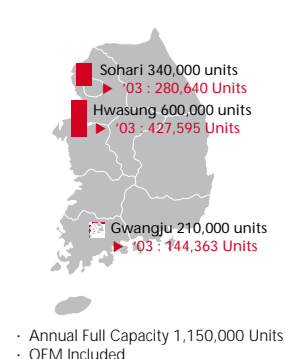


Production (Units)



· FY03 Donghee Automotive production excluded

Production Capacity



## Slight Decline in Overall Output, but Stepped up Sorento Sales

Kia Motors' three domestic plants boast an annual output capacity of 1,150,000 units, but actual production for 2003 was 852,598 units, down 2.2% year on year. The total breaks down as 280,640 at Sohari, 427,595 at Hwasung plant, and 144,363 at Gwangju. The plants operated at 74% of total capacity, slightly lower than in 2002. Major factors contributing to this drop in output were, sluggish domestic sales throughout the year; readjusting output at the Gwangju plant to 300,000 units in the wake of the July - August strike; resource allocations needed to launch new models; production delays during wage negotiations; and the introduction of a 40 - hour workweek.

However, positive changes have also been made at the Kia plants in 2003. Utilization rate of the Line 1 at Hwasung has increased from 40 units per hour to 44.4, enabling the company to accommodate increased demand for the Sorento. Lines 2 and 3 at Hwasung are now fully ready for mass production of the Cerato and Opirus. Importantly, the quality index has improved throughout production operations, and receipt of ISO 14001 certification by all three plants has bolstered the corporate image related to environmental protection.

## High Quality Assessment Received Overseas

Ongoing quality improvement efforts have resulted in highly positive ratings for Kia vehicles from numerous overseas automobile evaluation organizations. The Sorento was ranked first among 12 mid-sized SUV models covered in an AutoPacific vehicle satisfaction survey of American consumers (results released in May 2003). The Kia SUV also topped a total quality index study conducted by Strategic Vision (results released in June) in the mid - sized SUV category. The Carnival, meanwhile, was ranked third among 13 models surveyed.

The quality of Kia products has been clearly recognized. An IQS survey by J.D.Power and Associates included an assessment that said Kia Motors had achieved the most extensive quality enhancement over the past two years. Specifically noted were the consistent quality of components and improvement in adherence to basic quality standards. Kia officials are confident the outstanding quality of new models recently introduced will further boost the company's quality ratings in 2004.

## Output Capacity Stepped Up and Operation Rate Made More Efficient

The expansion of the Gwangju plant capacity from 210,000 units to 350,000 units and raised total annual output capability to 1,250,000 units. The company expects to produce 992,000 vehicles in 2004, which would be an operation rate of 80%. Moreover, Donghee Auto, a partner with a plant in Seosan, Korea capable of turning out up to 150,000 units a year, will be commissioned to build 110,000 units of the Morning, one of Kia's latest models, in 2003. Kia's goal is to reach the pinnacle of operations performance in the world automobile industry, by 2007.





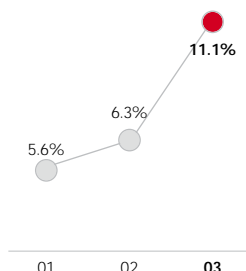
## A Promise to Deliver Vehicles that Exceed Customer Expectations

The J - 2.9 common - rail diesel engine equipped with turbocharger inter - cooler.

Kia researchers are testing performance and steadily improving quality so that the company can rank among the world's top five in terms of quality by 2010.



CAPEX Trend  
(of Revenue)



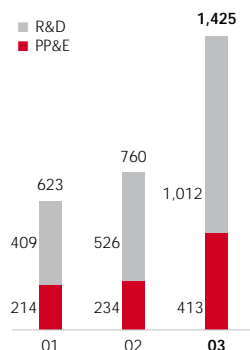
### Consolidation of R&D Resources at Namyang R&D Center - Improved Development Efficiency and Synergy Effect

In May 2003, Kia and Hyundai's various R&D centers in Ulsan, Namyang and Sohari were consolidated into one centralized research and development hub. The Namyang Research and Development Center has become the heart of automobile research and development in Korea. Situated on a 3,465,000m<sup>2</sup> site, the Center boasts a full range of equipment and a broad pool of manpower, offering the means to carry out all phases of automobile development, from body design, engineering design, testing and power train development, basic research, electronics research and a pilot production center. The new facility will greatly increase development efficiency and generate synergy.

### Design and Technical Center Inaugurated in North America

Hyundai and Kia Motors have announcee the inauguration of the Hyundai/Kia Motors Design & Technical Center in Irvine, California. The construction initiated in November 2001 has been completed, resulting in a compound over an area spanning 29,200m<sup>2</sup> with a total floor area of 8,250m<sup>2</sup>. The state - of - the - art, 2 - story R&D center is a platform for researching concept cars and adjusting vehicles already in mass - production to better satisfy local market requirements. The Center conducts a broad range of research on both Kia and Hyundai models, and the two companies will certainly benefit from the synergy created in such a collaborative environment. Some 100 Korean and American automobile designers, engineers, and prototype and model markers will work at this Center.

CAPEX Trend  
(Korean Won in billions)



- Increased R&D investments for new car development
- Building and expanding engine & transmission production facilities
- PP&E investment for rationalizing & remodeling of Gwangju plant

### Massive Proving Ground under Construction in the US

The construction of a 17,160,000m<sup>2</sup> proving ground is underway in California's Mohave Desert. Scheduled for completion in late May, 2004, the US\$50 million facility will be equipped with a four lane tracks 10.4km long, a parking facility of nearly 200,000m<sup>2</sup> and an onsite R&D center. This proving ground and test site, will to serve as a strategic developmental launchpad for the North - American operation for both Kia and Hyundai. It will conduct performance and durability tests on Hyundai and Kia cars and their locally developed automotive components.

### KRW1.4 Trillion Earmarked for Investment in 2004

Kia Motors plans to invest KRW1.428 trillion, or about 9% of total sales revenue, in 2004. The budget will cover stepped up R&D on new models, the cost for building or expanding engine and transmission plants, and remodeling of the Gwangju plant. Meanwhile, the market debut of Cerato in late 2003 will be followed by other models to be successively launched in 2004. In January 2004, the Bongo III(Light Cargo Truck), built around an environment - friendly engine, was launched in response to stiffening environmental regulations, and in February, the Morning, a next - generation, lightweight export model was launched. Second half launches include the KM, a new - concept SUV, and the JB, the successor to the Rio, providing additiional opportunities to expand domestic and overseas sales.



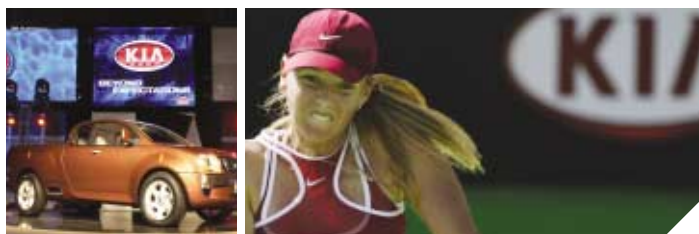


## Innovative Marketing Approaches to Maximize Product Value



Kia Motors attends all the leading motors shows (Frankfurt, Detroit and Tokyo, among them) to engage in marketing and exhibit concept cars that manifest world-class technology.

Kia has concluded contracts to sponsor the Australian Open and other major sporting events, projecting a dynamic worldwide image that helps boost sales.



#### Motor Show Attended in 2003

- March 4 – March 16  
Geneva International Motor Show
- April 21 – April 27  
Shanghai Motor Show
- September 9 – September 21  
Frankfurt Auto Show
- October 1 – October 12  
Busan International Motor Show
- October 22 – November 5  
Tokyo Motor Show

#### Sports Marketing

Event	Participation Capacity
Australian Open Tennis Championship	Official Sponsor (2002 ~ to date)
Davis Cup	Official Sponsor (2003 ~ to date)
Korean National Ski Team	Sponsor
Tour de Lankavi Bicycle Race	Official Sponsor (2003 - 2005)

### Proactive Company - wide Marketing Organization

The entire Kia organization was overhauled in 2003 to improve the capabilities to forecast changing market trends and respond to them more effectively. The Product Planning Division was expanded and restructured to raise efficiency.

### Geared up for Global Marketing

In 2003, Kia Motors completed a master plan for mid-/long-term marketing strategies and consolidated the overseas marketing network for enhanced competitiveness. Marketing specialists were dispatched to the overseas regional headquarters and offices to oversee local sales and marketing activities. In October, the "Brand Strategy Task Force" was formed to strengthen the Hyundai and Kia brands and promote the quality aspects of Kia and Hyundai vehicles as part of the effort to join the global Top Five automakers by 2010. The current brand status has already been carefully assessed, and global brand identity strategies are now being developed. Once these are in place, brand management and brand asset management systems are planned.

### Stronger Product Competitiveness

As new models such as the Opirus and Cerato are launched, Kia is improving their marketability by carefully determining the sales prices that best reflect local market conditions and ensuring designs and specifications match local needs. At the same time, the company seeks to identify new car concepts ahead of the competition and reflect them in new model development.

### Diverse Marketing Approaches, Strengthened Sports Marketing

Kia is bolstering its domestic market position by targeting women, offering VIP programs, organizing cultural events for customers, and utilizing customer relation management. Overseas, product unveilings are held for major international motor shows. Finally, the company sponsors the Australian Open, the Davis Cup and other international sporting events to raise brand recognition.



Strategic Vision, a US - based automotive consulting firm, made the Sorento its top pick in the 2003 Total Quality Index for the mid - sized SUV category and praised the vehicle in the *New York Times*. The Sorento's superior quality and price competitiveness has made it an important component in Kia's global advance.

Kia's determination to keep growing has not been dampened by the global economic downturn, and trade barriers have not dampened the corporate spirit of challenge. The company has elevated annual exports to 500,000 units, worth some US\$5 billion, by remaining focused on developing next - generation technology, improving quality, and diversifying overseas markets. Global customer satisfaction is the key to generating revenue, and every effort is also being made to satisfy shareholders.

To the top five automakers,  
it's not a race,  
it's a test of pure mastery.



### Passenger Line - up



>> Cerato

#### Compact Sedan with a New Feel

The Cerato is setting new trends in near mid - sized sedans, coupling sexy styling and responsive handling with a luxurious interior. This car promises a driving experience that will exceed all expectations.



>> Rio SF

#### Sedan with Top - class Safety

A buyer's decision is made with extra care when loved ones are involved; safety, power and styling are all concerns. You want to ensure your new car will be safe, technologically advanced and comfortable, making the Rio SF, with unsurpassed safety, the easy choice.



>> Morning / Picanto

#### Running Free

The Morning is not just a car; it's your fashion statement designed for safety and that special feel. And the 1,000cc engine will provide a freedom that's yours alone. It will be love at first sight, and the car will continue to grow on you the longer you drive it.

# A Commitment to Shareholders' Interest

## IR Activities in 2003

- |  |  |   |  |
|--|--|---|--|
| <ul style="list-style-type: none"> <li>· <b>March</b></li> </ul> | Moody's Corporate Credit Ratings Review<br>Deutsche Securities Investors Conference<br>Annual Report Release (Korean, English)<br>Annual General Shareholder's Meeting | <ul style="list-style-type: none"> <li>· <b>June</b></li> </ul>     | Non - Deal Road Show in US   |
|  |  | <ul style="list-style-type: none"> <li>· <b>August</b></li> </ul>   | 1st Half Business Results Briefing   |
|  |  | <ul style="list-style-type: none"> <li>· <b>October</b></li> </ul>  | Non - Deal Road Show in Europe<br>China Plant Tour for Investment Institutions |
| <ul style="list-style-type: none"> <li>· <b>May</b></li> </ul>   | 1st Quarter Business Results Briefing<br>S&P Corporate Credit Ratings Review   | <ul style="list-style-type: none"> <li>· <b>November</b></li> </ul> | Non - Deal Road Show in Asia<br>3rd Quarter Business Results Briefing          |

## 2004 IR Strategies





	2003	2002	2001
No. of Shares (in thousands)	359,730	369,730	369,597
Stock Price(Based on the Closing price, KRW)	10,900	8,800	8,860
Liability / Equity	109.9%	122.6%	148.7%
Total Debt / Total Asset	19.1%	16.5%	24.4%
Net Debt / Equity	3.8%	Net Cash	40.5%
Total Debt / EBITDA	1.67x	1.35x	2.11x
EBITDA / Interest Expense	11.90x	7.39x	5.15x
PER (Price Earnings Ratio)	5.64x	5.05x	6.22x
EPS (Earnings per Share, KRW)	1,947	1,743	1,424
ROE (Return on Equity)	14.95%	17.13%	17.11%
EV / EBITDA	3.22x	2.88x	4.77x
Equity held by Foreigners	33.10%	17.26%	13.41%
Dividend Rate	7%	5%	-
Dividend Propensity	17.8%	14.35%	-



### KIA Motors Share Price vs. KOSPI

The price of KIA Motors stock moved along with the composite price index early in 2003, but fell below the average rate of share price changes from July. KIA shares indicated the first signs of a rebound in October and were back on pace with the overall market by year's end. The reasons Continued labor unrest in July and August and a general economic downturn in Korea kept the share prices low through the third quarter. However, domestic sales rose in the fourth quarter and overseas operations outperformed original expectations, enabling the company to achieve its 2003 performance targets. KIA management is resolutely determined to achieve even better results in the year ahead to boost value for the investor.

A pair of glasses with dark frames and thin temples is resting on a newspaper. The newspaper is open to a page with a financial table, likely a stock market listing, showing various numbers and names. The background is a warm, yellowish-orange gradient, suggesting a bright, sunny day. The overall mood is one of achievement and hard work.

## Receiving Acclaims and Honors Is Even More Reason to Work Harder

### Motivated by Acclaims and Honors to Work Even Harder

The ISO 14001 certifications obtained by all three domestic plants are enhancing Kia's public image. The Hwaseong plant has been granted an internationally recognized national calibration and testing laboratory accreditation for 5 years (May 2003 to May 2008) on 20 length measurements such as torque wrench, vernier calipers and vehicle inspection equipment as well as one category related to torque measurement. Meanwhile, many areas were improved to ready the plant for the various ISO certification inspections by the Korea Agency for Technology and Standards under the auspices of the Ministry of Commerce, Energy & Energy. The upgrades at the Hwaseung plant have dramatically improved the quality of parts and components and slashed raw - material costs.

### Motorweek Driver's Choice Award

The Sorento and Carnival earned the highest recognition in the US. The Sorento was honored as the best mid - size SUV in the 2003 Motorweek Drivers' Choice Awarda, part of a weekly program aired on the US channel PBS. Meanwhile, the Carnival was selected as the best mini - van by *Car Book*; and the Sorento scored high in all rating categories.





### **Sorento Wins the 2003 Customer Satisfaction Award by Strategic Vision**

Strategic Vision, a renowned American automobile industry consultancy selected Sorento for its 2003 Customer Satisfaction Award in the mid-size SUV category. This comes on the heels of receiving AutoPacific's Customer Satisfaction Award. The Sorento has been hailed as a new prodigy among mid-sized SUVs. Industry watchers point to the Sorento's outstanding stability, high quality parts, features that outclass the other SUV's of its size, and industry-leading warranty. The Sorento has also been selected as the Best SUV US\$25,000 by the New England Motor Press Association, and the Best SUV of its class by the Northwest Automotive Press Association.

### **Kia Recognized for Contribution to Korean Exports**

On November 28, Kia Motors was awarded the US\$5 Billion Export Tower Award on the government's 40<sup>th</sup> International Trade Day. Vice-Chairman Noe-Myeong Kim was also awarded the Gold Tower Order of Industrial Service Merit for his contribution to the export achievement. The record-breaking achievement was largely due to Kia's focus on new model development, strengthened overseas dealer network and ongoing quality improvement. The market responded enthusiastically to the Opirus and Cerato in 2003, and Kia Motors is aiming for more great hits in the coming year. The economical Picanto; the CT, which is a Pregio upgrade; and the compact SUV to be known as KM are all scheduled for launch.



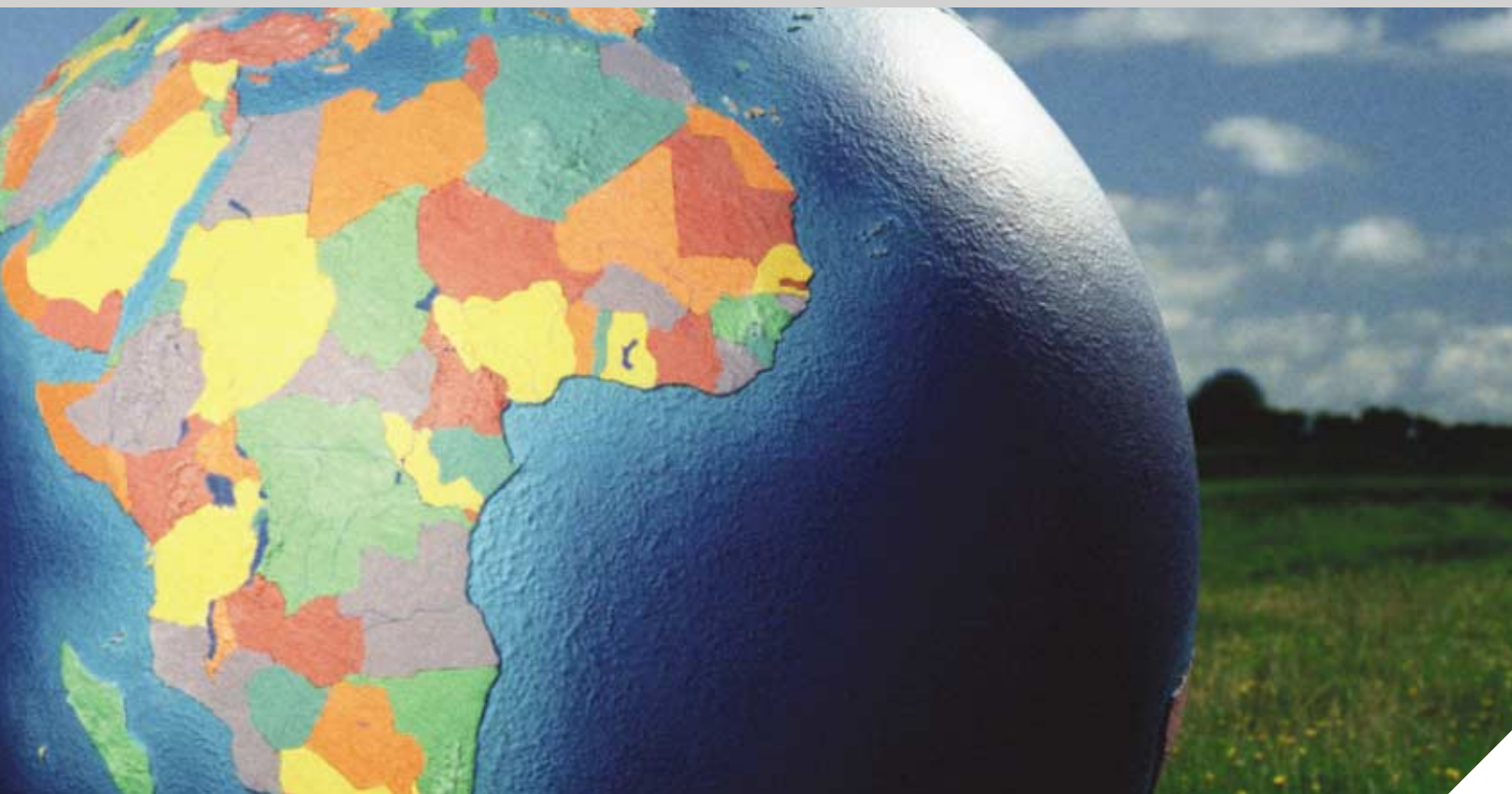
# Healthy Corporation for a Healthy Society

## Proclamation of Ethical Management

In 2003, Kia Motors and Hyundai Motor jointly pledged to ensure equity and transparency in all business dealings. To this end, the companies engage in public biddings and have adopted an online procurement system. The “Ethical Management” proclamation encompasses the following areas: Protecting consumer rights and interests, and keeping all promises Protecting the environment, participating in community action programs, contributing to business transparency in Korea Implementing fair and open bidding process.

## At the Top for Environment Management, Too

Kia Motors and Hyundai Motor have pledged a common commitment to the environment. They are resolved to be ranked among the world’s top five for environmental management performance by 2010. The detailed action plan included the following tasks: Set up a system for environment -friendly vehicles to meet the requirements of ever -stricter environmental regulations Reduce pollution emissions and waste generation, practice green procurementand production Practice environmental management at points of contact with customers.



### **Environmental Technology Research Center**

A research center dedicated to environmental technology is being built in the Mabuk R&D complex at Yongin, Korea. The project is scheduled for completion in August 2004 at a total cost of KRW30 billion. The Environmental Technology Research Center will include a four-story main building with basement and an environmental research building. The Center will help develop products that comply with domestic and international environmental regulations, conduct research on environmental technology, and play a key role in Hyundai - Kia's ambitions to become the world's fifth - largest automaker.

Research areas will encompass both products and production processes. The goal will be to make vehicles with environment - friendly designs that are highly recyclable, operate cleaner and achieve better fuel mileage. Production technologies will also be developed to curb air and water pollution, conserve energy and reduce waste generation. Hyundai and Kia will staff the Center with some 600 researchers and related personnel by 2010.





## A Corporation in and for the Community, Enjoying the Respect of Citizens

### **Ambulances for Earthquake - stricken Algeria**

Kia Motors donated six Pregio ambulances effort after an earthquake -devastated Algeria. The company also dispatched a mechanic to service Kia cars damaged in the quake.

### **Bus for Gwangju's Sangmu Soccer Team**

The company donated a Granbird bus to Sangmu Bulsajo, the Gwangju football team. The donation was made after Kia management learned the team was having problems in getting to their games away from the home stadium. The Kia Tigers, a professional baseball team, also has Gwangju as its home base and one of Kia's three domestic plants is located in the southwestern Korean city.

### **Special Help for Flood - stricken Areas**

In September 2003, Kia Motors, Hyundai Motor, and Hyundai Mobis (a parts supplier) jointly ran a Disaster Relief Headquarters that dispatched emergency relief teams to devastated areas. The companies also offered repair services for vehicles damaged in the floods. A disaster relief fund of KRW 5 billion raised by Chairman & CEO, Mong-Koo Chung, and the employees was donated to the National Association for Disaster Relief.





### **Kia UK Sponsors Charity Bicycle Race**

Kia's UK Headquarters sponsored a 3-day bicycle race covering 259 miles and stretching from Great Britain to France. The charity event was organized to support the fight against heart and vascular diseases. The UK office employees attended the race and helped collect charity funds. Their goodwill and solidarity impressed all who took part in the event.

### **Help for Families of Child Cancer Victims**

On December 15, the Domestic Sales Division delivered to Donga University Hospital the funds collected at the Kia booth during the Busan International Motor Show in October. The funds were raised to help families of children suffering from cancer.

### **Gifts to Orphans**

Employees from the Kia Domestic Sales Division and Sohari Customer Center donated funds to comfort children who have lost a parent or parents in traffic accidents.



# KIA.

## Using our resources to YOUR advantage.

The Morning/Picanto, a European-style A-segment car with 1,000cc engine, was officially launched in February 2004. The new mini-car targets buyers who want to save money and is designed to appeal especially to women who value roominess and safety.

Kia's corporate interests are not confined to the automotive industry. The company is committed to fulfilling all social obligations as a global corporation to help make the world a better place. Kia sponsors major international sporting events to solidify its global presence, and the shareholders play an important role in Kia's effort to make a positive difference.





## RV Lineup



>> **Sorento**  
**a Beautiful Performer**  
 More than powerful, the Sorento is beautiful. Curtain-type airbags and upgraded features take safety and luxury to new heights for added value and greater satisfaction.



>> **Carnival II**  
**Korea's Best - selling Minivan**  
 The Carnival II promises stability and reliability under all driving conditions, with the looks and power to lead in its class. The noble character of this minivan remains unchanged over time, and its quality is well documented: The Carnival II is sold in over 70 countries, and it won top marks for customer satisfaction in the US.



>> **Carens II**  
**All the Comforts of Home**  
 The Carens II is loaded with features for maximum comfort. Originally equipped with a powerful yet surprisingly economical LPG or gasoline engine, it is now also available with a gasoline engine that delivers a car-like feel.



>> **Xtrek**  
**the Multi - Purpose Vehicle**  
 This vehicle was designed to put more zest in life, making driving a pleasure in both rural and urban settings. SUV styling and minivan functionality, versatile interior, and powerful common-rail diesel engine add up to fun.

## Management's Discussion & Analysis

### Sales

Kia sold 319,795 finished vehicles in Korea in 2003, down 28% from the previous year. However, exports were up 19.8% to 538,902 units, for 858,697 total finished units sold, 4% lower than in 2002.

The Korean automobile industry suffered from sluggish domestic demand as a result of a protracted

	2003	2002	2001
Sales (Units)	858,697	894,268	899,788
Domestic	319,795	444,444	411,321
Export	538,902	449,824	488,467
Sales (KRW in millions)	12,839,881	12,158,113	11,129,204
Domestic	5,126,358	6,304,394	5,146,620
Export	7,713,523	5,853,719	5,982,584
Cost of Sales (KRW in millions)	10,084,078	9,581,392	8,531,616
Cost of Sales Ratio	78.5%	78.8%	76.7%

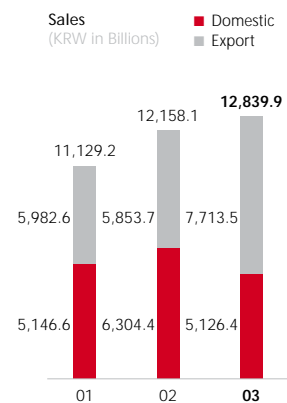
economic downturn. Extended strikes by workers and less industrial demand for passenger cars were the principle reasons for the reduction in units produced and sold. Kia's market share of the domestic passenger car fell 2.7% points to 23.8% during 2003.

On the other hand, Kia retained the top share of the Korean RV (SUV/MPV collectively) market even though the number of units sold was down 21% year on year. Performance was buoyed by the robust sales of the Sorento, Carens and X-Trek lines.

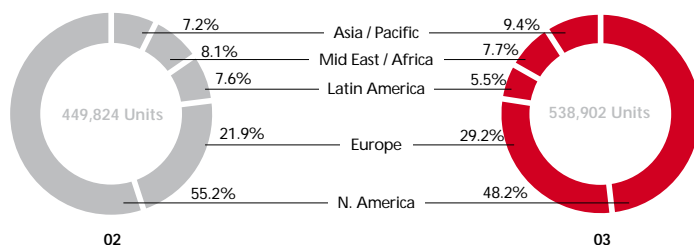
Despite the poor domestic sales, the export volume reached 538,902 units, or 19.8% higher than in 2002. Of these growing exports, 156,675 units were shipped to Europe, which represented 29.2% of total exports in 2003, nearly 7% points higher than in 2002. As the result, Europe has quickly become the company's second largest export market.

Revenue in 2003 totaled just under ₩12.84 trillion, a 5.6% year-on-year rise that reflects an adjustment for vendor sales of goods to be repurchased post-manufacture. The domestic market represented 40% of the total revenue, and the remaining 60% was from overseas. The ₩618.8 billion growth in total

Sales  
(KRW in Billions)



Export Breakdown by Region  
(Based on Number of Shipment Units)

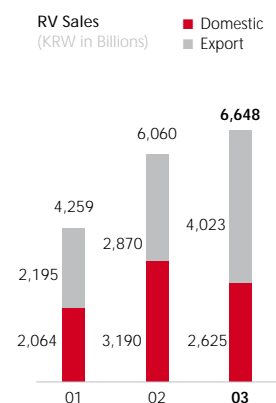


Export Shipment  
(Units)

	2003	2002	2001	Growth (2003-2002)
U.S	229,426	222,872	233,008	2.9%
Europe*	156,675	98,665	100,499	58.8%
China**	55,074	22,536	14,587	144.4%

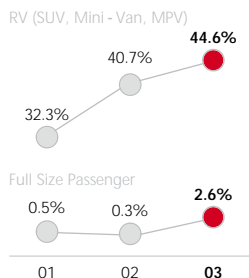
\* KD Shipments Excluded \*\* Local Production Included

RV Sales  
(KRW in Billions)

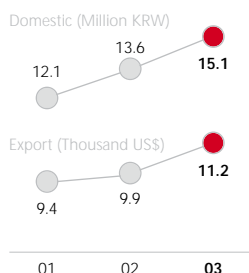




#### Product Mix Change



#### ASP Change



revenue included a ₩495.8 billion increase from a better product mix, and additional ₩203.8 billion from increased knocked-down unit export and other sales. Meanwhile, exchange rate fluctuations reduced the total revenue figure by ₩17.8 billion.

### Profitability

Operating income in 2003 was 6.3% of total sales, the highest profitability ever. The better performance can be attributed to stronger competitiveness from successful new models, overall better quality, and an improved cost structure. The steadily rising profitability will continue in the future.

The number of total units sold in 2003 was lower than the 2002 figure, and the Won/Dollar rate fell ₩52 during the year to ₩1,192. The steadily improving product mix has been a major reason for the higher profitability. The large passenger cars, SUVs and MPVs are the company's most profitable lines, and their portion of total sales has risen from 33% in 2001 to 41% in 2002 and 47% in 2003. This growth has allowed the company to earn more money while selling fewer units per year because of the sharp decline in the domestic market. The average sales price (ASP) per unit has also risen to ₩15.1 million for domestic market and US\$11,200 for export market, helping to boost overall profitability.

	2003	2002	2001
Sales	12,839,881	12,158,113	11,129,204
Operating Income	812,440	658,493	522,241
Operating Margin	6.3%	5.4%	4.7%
Net Income	705,423	641,379	552,235
Net Margin	5.5%	5.3%	5.0%
Earnings per Share(KRW)	1,947	1,743	1,424

(Korean won in millions)

### Cost of Goods Sold

COGS in 2003 exceeded ₩10.84 trillion, or 78.5% of total sales, up 5.2% (₩502.7 billion) from that in 2002. Raw materials cost was elevated ₩380.3 billion in 2003 to over ₩7.89 trillion by the greater number of high-value-added models sold in the product mix. Manufacturing cost was also increased by ₩13.1 billion in 2003 totaling about ₩1.12 trillion. However, due to the increase in the total revenue, the ratios as percentage of total revenue for raw materials cost (61.5%) and manufacturing cost (7.8%) were decreased by 0.3% year-on-year. Salary and wage hikes drove labor expenses up 10% year on year to ₩109.3 billion, with the ratio of labor expense to total revenue rising 0.4% points to 9.2%.

### SG&A Expenses

SG&A was increased 1.3% (₩25.1 billion) to approximately ₩1.94 trillion in 2003. On the other hand, the ratio of SG&A to total revenue fell 0.7% points, from 15.8% to 15.1% during the year because of the higher total revenue.

Despite the wage increase, the total labor expense was increased only 3% year on year. It was due to the decreased domestic sales incentive payment for sales personnel resulted by poor domestic automobile sales condition. The lower overseas sales promotion expense in 2003 was possible by improved product quality and brand value, but the sluggish domestic sales forced the company to step up its domestic promotional effort. On balance, the overall sales promotion expense was down by 12.3% year-on-year. The warranty expense was down 3.4% (₩14.4 billion) compare to the previous year. The actual warranty expense increased ₩32.9 billion. However, the end-of-life vehicle (ELV) cost burden in Europe was

## Management's Discussion & Analysis

shifted from the Head Office to European subsidiaries, and also the costs for proactive vehicle inspections increased as the company worked to correct problems before they became customer complaints. In addition, improved product quality lowered warranty claims in North America, which caused decrease in the provisions for warranties.

### Non-operating Income & Expenses

Non-operating income reached ₩456.2 billion in 2003, which was ₩86.5 billion lower than that for the previous year. The main factors behind this drop: The gain on foreign currency translation, which is linked to exchange rates, was down ₩154.8 billion; the gain on equity evaluation method rose ₩9.5 billion, and other non-operating income was ₩57.9 billion higher than in 2002.

Non-operating expenses increased ₩15.1 billion year on year to ₩415 billion in 2003. The lower average balance in borrowings and market interest rates brought the interest expense down ₩43.8 billion from the 2002 figure, but foreign exchange losses from fluctuating exchange rates increased ₩42.5 billion. New facilities expansion at the engine and transmission plants prompted the sale or shutdown of old facilities. As a result, losses on the disposal of tangible assets were 26.5 billion higher in 2003 than they were a year earlier. Meanwhile, other non-operating expenses were down ₩10.1 billion.

### Net Income/EPS/Income Taxes

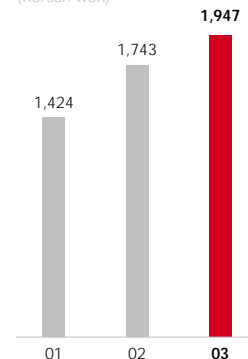
The improved 2003 performance resulted in a net income of ₩705.4 billion, up 10% year on year. Earnings per share improved 11.7% to ₩1,947, and company officials are confident that this rising trend will continue. On the other hand, income taxes were ₩11.7 billion lower because ₩20 billion in tax credits generated since the closure of the 2002 books were applied against the income tax expense for 2003.

### Assets

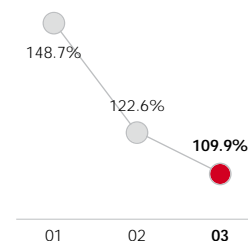
#### Tangible Assets

The cash inflow was boosted by increased sales of automobiles with higher added value. In 2003, short-term financial instruments with maturity within 90 days were treated as cash or deposits, driving this account up 88% year on year to ₩675 billion. Cash & Cash equivalent, which includes short-term financial instruments and marketable securities, rose ₩395.3 billion to almost ₩1.94 trillion. The drop in 2003 domestic sales volume caused automobile trade receivables to decrease by ₩139.8 billion from that for the previous year, while greater product inventories boosted overall inventories by ₩109.7 billion.

Earnings per Share  
(Korean won)



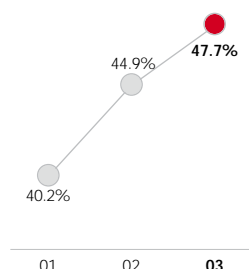
Debt - to - Equity Ratio



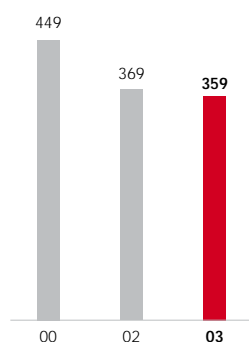
	2003	2002	2001
Assets	11,211,132	9,112,648	8,438,466
Liabilities	5,868,953	5,018,964	5,045,450
Shareholders' Equity	5,342,179	4,093,684	3,393,016
Debt - to - Equity Ratio	109.9%	122.6%	148.7%
Equity - to - Asset Ratio	47.7%	44.9%	40.2%

(Korean won in millions)

Equity-to-Asset Ratio



Change in Number of Shares  
(Shares in Millions)



## Fixed Assets

The acquisition of affiliated company stocks and capital increases at overseas subsidiaries to ensure smooth parts supply and boost exports caused long-term investment securities and equity method gains to grow ₩214.4 billion year on year. Increases in the share prices for marketable securities such as Hyundai Mobis also helped to boost investments of ₩819.4 billion to almost ₩1.12 trillion at the end of 2003.

Investments related to new model development were increased. At the same time, engine and transmission production facilities were either expanded or newly built, and the production line at the Gwangju plant was expanded. As a result, overall annual investments were ₩494.5 billion higher in 2003 than it had been the year before.

Intangible assets also increased ₩154.1 billion because R&D expenses related to such new models as the Sorento, Morning and KM mini-SUV were capitalized.

## Liabilities

### Current Liabilities

Increased overseas sales drove up raw material costs and parts procurement, resulting in a modest ₩96.3 billion growth in trade accounts payable year on year. The company issued ₩500 billion in commercial paper to ensure constant usable liquidity in a domestic capital market beset by widespread credit card delinquency problems in 2003. The higher banker's usance from a change in import methods and the rise in exports elevated short-term borrowings ₩147.7 billion to ₩748.6 billion in 2003. In addition, the current portions of debentures and of long-term debt was increased to ₩369.6 billion as corporate bonds came within one year of maturity.

### Long-term Liabilities

Long-term borrowings and debentures totaling ₩480.4 billion were redeemed as matured borrowings and reclassified on the books as current borrowings. The surge in overseas sales volume was expected to boost overall warranty provision (including both short and long term) significantly. However, steadily improved quality and the shifting of responsibility for European ELV provision from the Head Office to local subsidiaries kept the year-on-year increase in warranty provision to ₩27.8 billion. Kia Motors engaged in various derivative transactions in 2003, and a rising exchange rate at the end of the accounting year caused a temporary loss on evaluation. Derivative instruments credit has increased by ₩96.9 billion from the 2002 figure.

## Shareholders' Equity

The stock option rights granted in year 2000 were exercised to generate a ₩1 billion gain on the disposition of treasury stock, causing capital surplus to rise in 2003. A net income of ₩705.4 billion was generated in 2003, but a 2002 dividend payout of ₩92.0 billion was followed by a ₩88.7 billion share buyback and cancellation in 2003. As a result, retained earnings increased only ₩524.6 billion year on year. Meanwhile, profit on paper (valuation income) increased to ₩762.7 billion as a result of higher prices for listed stocks held by the company. On the other hand, ₩41.6 billion of valuation losses of short-term(within 12 months) derivative investments occurred. Total Capital adjustment was increased by ₩722.8 billion.



# Report of Independent Public Accountants

English Translation of a Report Originally Issued in Korean

## To the Shareholders and Board of Directors of Kia Motors Corporation:

We have audited the accompanying non - consolidated balance sheets of Kia Motors Corporation as of December 31, 2003 and 2002, and the related non - consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, all expressed in Korean won.

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kia Motors Corporation as of December 31, 2003 and 2002, and the results of its operations, changes in its retained earnings and its cash flows for the years then ended in conformity with financial accounting standards in the Republic of Korea (see Note 2).

The translated amounts in the accompanying financial statements have been translated into U.S. dollars, solely for the convenience of the reader, on the basis set forth in Note 2.

As explained in Note 2, the Company implemented the Statements of Korea Accounting Standards ("SKAS") No. 2 - "Interim Financial Reporting", No. 3 - "Intangible Assets", No. 4 - "Revenue Recognition", No. 5 - "Tangible Assets", No. 8 - "Investments in Securities" and No. 9 - "Convertible Securities" in preparing its 2003 financial statements, which are effective from January 1, 2003. For comparative purposes, certain accounts in the 2002 financial statements were reclassified.

Also, the statement of income for the year ended December 31, 2002 was revised in conformity with SKAS No. 4. These reclassification and revision do not affect the net assets and net income but resulted in the decrease of sales and cost of sales by ₩1,898,338 million (US\$1,584,854 thousand) compared with the results based on the previous method.

As discussed in Note 14, the Company completed the stock retirement of 10 million treasury stock on July 2, 2003, which had been acquired for such retirement purpose under the resolution of the Board of Directors on May 9, 2003. As of December 31, 2003, remaining shares of common stock are 359,730,455 shares.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying non - consolidated financial statements are not intended to present the financial position, results of operations and cash flows in

accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea.

In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Accordingly, this report and the accompanying financial statements are intended for use by those knowledgeable about Korean accounting procedures and auditing standards and their application in practice.

**Anjin Deloitte LLC (A Member Firm of Deloitte Touche Tohmatsu)**

February 4, 2004 Seoul, Korea

#### **Notice to Readers**

This report is effective as of February 4, 2004, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors' report.

# NON - CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2003 AND 2002

	Korean won (in millions)		Translation into U.S.dollars (in thousands)	
	2003	2002	2003	2002
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	₩ 1,438,661	₩ 763,739	\$ 1,201,086	\$ 637,618
Short - term financial instruments	500,000	760,131	417,432	634,606
Marketable securities (Note 6)	-	19,565	-	16,335
Trade notes and accounts receivable, net of unamortized present value discount of ₩771 million in 2003 and ₩2,540 million in 2002, and allowance for doubtful accounts of ₩212,553 million in 2003 and ₩217,738 million in 2002	460,910	589,040	384,797	491,768
Inventories (Notes 3 and 8)	675,739	485,018	564,150	404,924
Other receivables, net of unamortized present value discount of ₩5,734 million in 2003, and ₩9,638 million in 2002 and allowance for doubtful accounts of ₩109,382 million in 2003 and ₩102,971 million in 2002	125,818	147,123	105,042	122,827
Advances and other current assets, net of allowance for doubtful accounts of ₩33,822 million in 2003 and ₩32,524 million in 2002	50,166	156,717	41,881	130,838
<b>Total current assets</b>	<b>3,251,294</b>	<b>2,921,333</b>	<b>2,714,388</b>	<b>2,438,916</b>
Non - current assets:				
Long - term investment securities, net of unamortized present value discount of ₩5,234 million in 2003 (Note 4)	1,237,217	-	1,032,908	-
Equity securities accounted for using the equity method (Note 5)	719,705	378,281	600,856	315,814
Investments, net of unamortized present value discount of ₩23,341 million in 2002 (Note 6)	-	499,775	-	417,243
Property, plant and equipment, net of accumulated depreciation of ₩2,151,627 million in 2003 and ₩1,882,817 million in 2002 (Notes 7 and 8)	4,663,360	4,166,854	3,893,270	3,478,757
Intangibles, net of amortization (Note 9)	453,814	299,724	378,873	250,228
Other assets (Note 10)	268,397	240,338	224,075	200,649
Deferred income tax assets (Note 18)	617,345	606,343	515,399	506,214
<b>Total non - current assets</b>	<b>7,959,838</b>	<b>6,191,315</b>	<b>6,645,381</b>	<b>5,168,905</b>
<b>Total assets</b>	<b>₩ 11,211,132</b>	<b>₩ 9,112,648</b>	<b>\$ 9,359,769</b>	<b>\$ 7,607,821</b>

	Korean won (in millions)		Translation into U.S. dollars (in thousands)	
	2003	2002	2003	2002
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current liabilities:				
Short - term borrowings (Note 11)	₩ 789,942	₩ 41,299	\$ 659,494	\$ 34,479
Current maturities of long - term debt and debentures, net of discount on debentures issued of ₩571 million in 2003 and nil in 2002 (Note 12)	482,138	112,551	402,519	93,965
Trade notes and accounts payable	1,674,366	1,578,099	1,397,868	1,317,498
Accrued warranties	259,415	253,865	216,576	211,943
Accounts payable - other	475,937	549,384	397,343	458,661
Accrued expenses and other current liabilities	157,232	144,345	131,268	120,507
<b>Total current liabilities</b>	<b>3,839,030</b>	<b>2,679,543</b>	<b>3,205,068</b>	<b>2,237,053</b>
Long - term liabilities:				
Long - term debt and debentures, net of current maturities and net of discount on debentures issued of ₩3,477 million in 2003 and ₩8,700 million in 2002 (Note 12)	870,278	1,350,726	726,564	1,127,673
Accrued severance benefits, net of National Pension paid for employees of ₩44,892 million in 2003 and ₩48,018 million in 2002, and individual severance insurance deposits of ₩771,330 million in 2003 and ₩668,441 million in 2002 (Note 2)	523,846	477,770	437,340	398,872
Derivative instruments credit	96,880	-	80,882	-
Long - term accrued warranties	519,061	491,860	433,345	410,636
Other long - term liabilities	19,858	19,065	16,578	15,917
<b>Total long - term liabilities</b>	<b>2,029,923</b>	<b>2,339,421</b>	<b>1,694,709</b>	<b>1,953,098</b>
<b>Total liabilities</b>	<b>5,868,953</b>	<b>5,018,964</b>	<b>4,899,777</b>	<b>4,190,151</b>
Commitments and contingencies (Note 13)	-	-	-	-
Shareholders' equity:				
Capital stock (Note 14)	1,848,652	1,848,652	1,543,373	1,543,373
Capital surplus (Note 15)	1,700,956	1,699,924	1,420,067	1,419,205
Retained earnings (Net income of ₩705,423 million in 2003 and ₩641,379 million in 2002)	841,078	316,427	702,185	264,174
Capital adjustments (Note 16)	951,493	228,681	794,367	190,918
<b>Total shareholders' equity</b>	<b>₩ 5,342,179</b>	<b>₩ 4,093,684</b>	<b>\$ 4,459,992</b>	<b>\$ 3,417,670</b>
<b>Total liabilities and shareholders' equity</b>	<b>₩ 11,211,132</b>	<b>₩ 9,112,648</b>	<b>\$ 9,359,769</b>	<b>\$ 7,607,821</b>



# NON - CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Korean won (in millions, except per share amounts)		Translation into U. S. dollars (in thousands, except per share amounts)	
	2003	2002	2003	2002
<b>Sales (Note 24)</b>	<b>₩ 12,839,881</b>	<b>₩ 12,158,113</b>	<b>\$ 10,719,555</b>	<b>\$ 10,150,369</b>
Cost of sales	10,084,078	9,581,392	8,418,834	7,999,157
Gross profit	2,755,803	2,576,721	2,300,721	2,151,212
Selling and administrative expenses (Note 23)	1,943,363	1,918,228	1,622,444	1,601,460
Operating income	812,440	658,493	678,277	549,752
Other income (expenses), net:				
Interest income (expense), net	32,837	(13,865)	27,414	(11,575)
Foreign exchange gain (loss), net	(1,579)	150,480	(1,319)	125,630
Reversal of allowance for doubtful accounts	6,251	5,921	5,219	4,943
Loss on valuation of inventories	(3,395)	(2,520)	(2,834)	(2,104)
Gain on valuation of equity securities accounted for using the equity method (Note 5)	53,250	43,776	44,457	36,547
Loss on disposal of accounts receivable	(33,965)	(40,420)	(28,356)	(33,745)
Gain on disposal of investments	5,563	1,767	4,645	1,476
Impairment loss of investments (Note 4)	-	(2,550)	-	(2,129)
Loss on valuation of derivatives (Note 21)	(48,820)	-	(40,758)	-
Loss on disposal of property, plant and equipment	(55,755)	(42,874)	(46,548)	(35,794)
Other	86,772	43,102	72,442	35,984
	<b>41,159</b>	<b>142,817</b>	<b>34,362</b>	<b>119,233</b>
Ordinary income	853,599	801,310	712,639	668,985
Extraordinary item	-	-	-	-
Income before income tax	853,599	801,310	712,639	668,985
Income tax expense (Note 18)	148,176	159,931	123,707	133,521
Net income	<b>₩ 705,423</b>	<b>₩ 641,379</b>	<b>\$ 588,932</b>	<b>\$ 535,464</b>
Basic ordinary income per common share (Note 2)	<b>₩ 1,947</b>	<b>₩ 1,743</b>	<b>\$ 1.63</b>	<b>\$ 1.46</b>
Diluted ordinary income per common share (Note 2)	<b>₩ 1,945</b>	<b>₩ -</b>	<b>\$ 1.62</b>	<b>\$ -</b>
Basic earnings per common share (Note 2)	<b>₩ 1,947</b>	<b>₩ 1,743</b>	<b>\$ 1.63</b>	<b>\$ 1.46</b>
Diluted earnings per common share (Note 2)	<b>₩ 1,945</b>	<b>₩ -</b>	<b>\$ 1.62</b>	<b>\$ -</b>

# NON - CONSOLIDATED STATEMENTS OF APPROPRIATION OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Korean won (in millions)		Translation into U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Unappropriated retained earnings:				
Beginning of year	₩ 597	₩ (324,952)	\$ 499	\$ (271,290)
Stock retirement as a deduction of retained earnings (Note 14)	(88,742)	-	(74,088)	-
Net income	705,423	641,379	588,932	535,464
	<b>617,278</b>	<b>316,427</b>	<b>515,343</b>	<b>264,174</b>
Appropriations:				
Legal reserve	12,600	9,300	10,519	7,764
Reserve for technology development	478,500	214,500	399,483	179,078
Cash dividends (Note 19)	125,448	92,030	104,731	76,833
	<b>616,548</b>	<b>315,830</b>	<b>514,733</b>	<b>263,675</b>
Unappropriated retained earnings, end of year	₩ 730	₩ 597	\$ 610	\$ 499

# NON - CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Korean won (in millions)		Translation into U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Cash flows from operating activities:				
Net income	₩ 705,423	₩ 641,379	\$ 588,932	\$ 535,464
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	468,105	459,630	390,805	383,728
Provision for severance benefits	209,909	222,579	175,246	185,823
Provision for warranties	344,610	374,783	287,703	312,893
Reversal of allowance for doubtful accounts	(6,251)	(5,921)	(5,219)	(4,943)
Loss (gain) on foreign currency translation, net	19,338	(47,661)	16,144	(39,790)
Loss on valuation of inventories	3,395	2,520	2,834	2,104
Gain on valuation of equity securities accounted for using the equity method, net	(53,250)	(43,776)	(44,457)	(36,547)
Gain on disposal of investments, net	(5,563)	(1,767)	(4,645)	(1,476)
Impairment loss of investments	-	2,550	-	2,129
Loss on disposal of property, plant and equipment, net	55,755	42,873	46,548	35,794
Amortization of present value discount, net	(4,145)	864	(3,460)	721
Compensation expenses on stock options, net	1,064	(368)	888	(308)
Loss on valuation of derivatives	48,820	-	40,758	-
Loss on disposal of accounts receivables	33,965	40,420	28,356	33,745
Miscellaneous loss	-	3,631	-	3,031
Changes in operating assets and liabilities:				
Decrease in trade notes and accounts receivable	122,675	218,008	102,417	182,007
Decrease (Increase) in long - term notes and accounts receivable	4,731	(1,164)	3,950	(972)
Increase in inventories	(194,115)	(67,121)	(162,060)	(56,037)
Decrease in advances and other receivables	47,122	195,072	39,340	162,859
Decrease (Increase) in other current assets	6,613	(13,750)	5,520	(11,479)
Decrease (Increase) in deferred income tax assets	(11,002)	54,561	(9,185)	45,551
Increase in trade notes and accounts payable	95,160	282,928	79,445	236,207
Increase (Decrease) in accounts payable - other	(74,981)	50,216	(62,599)	41,924
Decrease in other current liabilities	(11,153)	(26,730)	(9,311)	(22,316)
Increase in corporate income tax payable	23,912	70,099	19,964	58,523
Payment of warranties	(311,859)	(296,366)	(260,360)	(247,425)
Payment of severance benefits	(64,145)	(55,409)	(53,552)	(46,259)
Other	3,200	3,590	2,673	2,996
	<b>1,457,333</b>	<b>2,105,670</b>	<b>1,216,675</b>	<b>1,757,947</b>

	Korean won (in millions)		Translation into U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Cash flows from investing activities:				
Cash inflows from investing activities:				
Proceeds from withdrawal of short - term financial instruments	₩ 260,131	₩ -	\$ 217,174	\$ -
Proceeds from disposal of short - term investment securities	9,533	-	7,959	-
Proceeds from disposal of marketable securities	-	21,105	-	17,620
Proceeds from disposal of long - term investment securities	15,846	-	13,229	-
Proceeds from disposal of investments	-	12,018	-	10,033
Reduction in other current assets	17,778	136	14,842	113
Reduction in other assets	47,041	46,775	39,274	39,052
Proceeds from disposal of property, plant and equipment	90,641	56,442	75,672	47,121
	<b>440,970</b>	<b>136,476</b>	<b>368,150</b>	<b>113,939</b>
Cash outflows from investing activities:				
Acquisition of marketable securities	-	10,051	-	8,391
Acquisition of short - term financial instruments	-	360,141	-	300,669
Additions to other current assets	-	7,520	-	6,278
Acquisition of long - term investment securities	50,763	-	42,380	-
Acquisition of equity securities accounted for using the equity method	222,394	-	185,669	-
Acquisition of investments	-	160,392	-	133,906
Additions to other assets	153,790	151,979	128,394	126,882
Acquisition of property, plant and equipment	1,018,305	383,728	850,146	320,361
Acquisition of intangible assets	222,792	164,441	186,001	137,285
	<b>1,668,044</b>	<b>1,238,252</b>	<b>1,392,590</b>	<b>1,033,772</b>
	<b>(1,227,074)</b>	<b>(1,101,776)</b>	<b>(1,024,440)</b>	<b>(919,833)</b>
Cash flows from financing activities:				
Cash inflows from financing activities:				
Proceeds from short - term borrowings	737,756	-	615,926	-
Proceeds from long - term debt and debentures	2,746	262,489	2,293	219,143
Proceeds from exercise of stock option	1,647	-	1,375	-
Other	3,083	5,776	2,573	4,822
	<b>745,232</b>	<b>268,265</b>	<b>622,167</b>	<b>223,965</b>



# NON - CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Korean won (in millions)		Translation into U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Cash outflows from financing activities:				
Repayment of short - term borrowings	₩ -	₩ 11,809	\$ -	\$ 9,859
Repayment of current maturities of long - term debt and debentures	112,630	367,679	94,031	306,962
Repayment of long - term debt and debentures	4,882	377,125	4,076	314,848
Acquisition of treasury stock	88,742	-	74,088	-
Payment of cash dividend	92,023	-	76,827	-
Other	2,292	2,656	1,912	2,217
	<b>300,569</b>	<b>759,269</b>	<b>250,934</b>	<b>633,886</b>
	<b>444,663</b>	<b>(491,004)</b>	<b>371,233</b>	<b>(409,921)</b>
Net increase in cash and cash equivalents	₩ 674,922	₩ 512,890	\$ 563,468	\$ 428,193
Cash and cash equivalents, beginning of year	763,739	250,849	637,618	209,425
Cash and cash equivalents, end of year	₩ <b>1,438,661</b>	₩ <b>763,739</b>	\$ <b>1,201,086</b>	\$ <b>637,618</b>

# NOTES TO NON - CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

## 1. THE COMPANY :

Kia Motors Corporation (the "Company"), incorporated in December 1944 under the laws of the Republic of Korea, is one of the leading motor vehicle manufacturers in Korea producing and offering for sale a range of passenger cars, recreational vehicles and commercial vehicles both in the domestic and the export markets. The Company owns and operates three principal automobile production bases: the Sohari factory, the Hwasung factory and the Kwangju factory. The shares of the Company have been listed on the Korea Stock Exchange since 1973.

Overseas subsidiaries for export sales include Kia Motors America, Inc. (KMA) in America, Kia Canada, Inc. (KCI) in Canada, Kia Motors Deutschland GmbH (KMD) and Kia Motors Europe GmbH (KME) in Germany.

As of December 31, 2003, the largest shareholder is Hyundai Motor Company, which holds 37.3 percent of the Company's stock.

In common with other Asian countries, the economic environment in the Republic of Korea continues to be volatile. In addition, the Korean government and the private sector continue to implement structural reforms to historical business practices including corporate governance. The Company may be either directly or indirectly affected by these economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic environment on the financial position and results of operations of the Company. Actual results may differ materially from management's current assessment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES :

### Basis of Financial Statement Presentation

The Company maintains its official accounting records in Korean won and prepares statutory non-consolidated financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

The U.S. dollar amounts presented in these financial statements were computed by translating the Korean won into U.S. dollars based on the Bank of Korea Basic Rate of ₩1,197.80 to US\$1.00 at December 31, 2003, solely for the convenience of the reader. This convenience translation into U.S. dollars should not be construed as a representation that the Korean won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.

### Implementation of Statements of Korea Accounting Standards

The Korea Accounting Standards Board (KASB), a standard setting body of the Korea Accounting Institute (KAI), has issued Statements of Korea Accounting Standards ("SKAS") No. 1 to No. 13, to enhance the usefulness of accounting information and global convergence of the existing Korea Financial Accounting Standards.

The Company prepared its non-consolidated financial statements as of December 31, 2003 in accordance with the existing Korea Financial Accounting Standards and the SKAS No. 1 - "Accounting Changes and Corrections of Errors", SKAS No. 2 - "Interim Financial Reporting", No. 3 - "Intangible Assets", No. 4 - "Revenue Recognition", No. 5 - "Tangible Assets", No. 6 - "Events Occurring after the Balance Sheet Date", No. 7 - "Capitalization of Financing Costs", No. 8 - "Investments in Securities" and No. 9 - "Convertible Securities". The Company has applied SKAS No. 1, No. 6 and No. 7 since the year ended December 31, 2002 and did not adopt SKAS No. 10 through No. 13, which are effective for fiscal year subsequent to December 31, 2003; however, early adoption is allowed.

# NOTES TO NON - CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

For comparative purposes, certain accounts in the 2002 financial statements were reclassified. These reclassifications do not affect the net assets and net income of the Company.

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements are summarized below.

## Revenue Recognition

Sales, including long-term instalment sales, are recognized at the time of shipment of motor vehicles and parts, which is when the significant risks and rewards of ownership of the goods have been transferred to the buyer. The interest income arising from long-term instalment sales contracts is recognized using the level yielding method.

The Company applied SKAS No. 4 - "Revenue Recognition" from January 1, 2003. In conformity with SKAS No. 4, the Company changed the accounting method for revenue recognition of sales to vendors to be repurchased under the outsourcing contracts from a gross basis to net basis. For comparative purposes, the statement of income for the year ended December 31, 2002 was revised in conformity with SKAS No. 4. This application of SKAS No.4 does not affect the net asset and net income of the Company ; however, the sales and cost of sales decreased as follows :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Decrease in sales	₩ 2,298,508	₩ 1,898,338	\$ 1,918,941	\$ 1,584,854
Decrease in cost of sales	2,298,508	1,898,338	1,918,941	1,584,854
Net effect	₩ -	₩ -	\$ -	\$ -

## Accrued Warranties

The Company generally provides a warranty to the ultimate consumer for each product sold and accrues warranty expense at the time of sale based on actual claims history. In addition, the Company recognizes accrued liabilities of the provision for the projected costs for dismantling and recycling vehicles that the Company sold in the European Union region to comply with a European Parliament directive regarding End-of-Life Vehicles (ELV), in which either the manufactures or sellers are financially responsible for a portion of the cost of the dismantling and recycling of vehicles placed in service, except for the vehicles sold in the countries where overseas sales subsidiaries are contracted with the Company to respond to such obligation (See Note 13).

## Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on management's estimate of the collectibility of the receivables.

## Inventories

Inventories are stated at the lower of cost or net realizable value, cost being determined by the moving average method except for materials in transit for which cost is determined using the specific identification method.

## Investments in Securities other than those Accounted for Using the Equity Method

### ► Classification of Securities

At acquisition, the Company classifies securities into one of the three categories : trading, held-to-maturity securities or available-for-sale. Trading securities are those that were acquired principally to generate profit from short-term fluctuations in prices. Held-to-maturity securities are those with fixed or determinable payments and fixed maturity that an enterprise has the positive intent and ability to hold to maturity.

Available - for - sale securities are those not classified either as held - to - maturity or trading securities. Trading securities are classified as short term investment securities, whereas available - for - sale securities and held - to - maturity securities are classified as long - term investment securities, except for those whose maturity dates or whose likelihood of being disposed of are within one year from the balance sheet date, which are classified as short - term investment securities.

#### ► Valuation of Securities

Investments in securities are initially measured at cost, which consists of the market price of the consideration given to acquire them and incidental expenses. If the market price of the consideration given is not available, the market prices of the securities purchased are used as the basis for measurement. If neither the market price of the consideration given nor those of the acquired securities are available, the acquisition cost is measured at the best estimates of its fair value.

After initial recognition, held - to - maturity securities are valued at amortized cost. The difference between their acquisition costs and face values is amortized over the remaining term of the securities by applying the effective interest method and added to or subtracted from the acquisition costs and interest income of the remaining period. Trading securities are valued at fair value, with unrealized gains or losses included in current operations. Available - for - sales securities are also valued at fair value, with unrealized holding gains or losses recognized in capital adjustments, until the securities are sold or if the securities are determined to be impaired and the lump - sum cumulative amount of capital adjustments are reflected in current operations. However, available - for - sales securities that are not traded in an active market and whose fair value cannot be reliably measured are valued at cost.

If the estimated recoverable amount of securities is less than the acquisition cost of equity securities or amortized cost of debt securities and any objective evidence for such impairment loss exists, impairment loss is recognized in current operations in the period when it arises.

#### Equity Securities Accounted for Using the Equity Method

Equity securities held for investment in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. The Company's share in the net income or net loss of investees is reflected in current operations. Changes in the retained earnings, capital surplus or other capital accounts of investees are accounted for as an adjustment to retained earnings or to capital adjustments.

#### Property, Plant and Equipment and Related Depreciation

Property, plant and equipment are stated at cost, except for assets revalued upward in accordance with the Asset Revaluation Law of Korea. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are treated as additions to property, plant and equipment.

Depreciation is computed using the straight - line method based on the estimated useful lives of the assets as follows :

	Useful lives (years)
Buildings and structures	20 ~ 40
Machinery and equipment	15
Tools, dies and moulds	5
Vehicles	5
Office equipment	5

The Company charges all financing cost to current operations in accordance with SKAS No. 7 - "Capitalization of Financing Costs". In addition, the Company assesses possible recognition of impairment loss when there is an indication that expected future economic benefits of an asset is considerably less than its carrying amount, as a result of technological obsolescence or rapid declines in market value. When it is determined that an asset may have been impaired and that its estimated total future cash flows from continued use or disposal is less than its carrying amount,



## NOTES TO NON - CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

the carrying amount of the asset is reduced to its recoverable amount and the difference is recognized as an impairment loss. If the recoverable amount of the impaired asset exceeds its carrying amount in subsequent reporting period, the amount equal to the excess is treated as the reversal of the impairment loss; however, it cannot exceed the carrying amount that would have been determined had no impairment loss were recognized.

### Intangibles

Intangible assets are stated at cost, net of amortization computed using the straight-line method over the estimated economic useful lives of related assets. Development costs are amortized over the estimated economic useful life (not exceeding 3 years) from the usable date of the related productions. Ordinary development and research expenses are charged to current operations. Cost in excess of net identifiable assets acquired (goodwill) is amortized over 5 years and industrial property rights and other intangibles are amortized over the period between five and ten years. If the recoverable amount of an intangible asset becomes less than its carrying amount as a result of obsolescence, sharp decline in market value or other causes of impairment, the carrying amount of the intangible asset is reduced to its recoverable amount and the reduced amount is recognized as impairment loss. If the recoverable amount of a previously impaired intangible asset exceeds its carrying amount in subsequent periods, an amount equal to the excess shall be recorded as reversal of impairment loss ; however, it shall not exceed the carrying amount that would have been determined had no impairment loss were recognized in prior years.

### Valuation of Receivables and Payables at Present Value

Receivables and payables arising from long-term installment transactions, long-term cash loans (borrowings) and other similar loan (borrowing) transactions are stated at present value, if the difference between nominal value and present value is material. The present value discount is amortized using the effective interest rate method, and the amortization is included in interest expense or interest income. As of December 31, 2003 and 2002, an interest rate of 10.0 percent is used in valuing the receivables and payables at present value.

### Accrued Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their service with the Company, based on their length of service and rate of pay at the time of termination. The accrued severance benefits that would be payable assuming all eligible employees were to resign amount to ₩1,340,068 million (US\$1,118,774 thousand) and ₩1,194,229 million (US\$997,019 thousand) as of December 31, 2003 and 2002, respectively.

Accrued severance benefits are approximately 58 percent and 56 percent funded at December 31, 2003 and 2002, respectively, through an individual severance insurance plan. Individual severance insurance deposits, in which the beneficiary is a respective employee, are presented as deduction from accrued severance benefits.

Before April 1999, the Company and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Company paid half of the employees' 6 percent portion and is paid back at the termination of service by offsetting the receivable against the severance payment. Such receivables, totalling ₩44,892 million (US\$37,479 thousand) and ₩48,018 million (US\$40,088 thousand) as of December 31, 2003 and 2002, respectively, are presented as a deduction from accrued severance benefits. Since April 1999, according to a revision in the National Pension Law, the Company and its employees each pay 4.5 percent of monthly pay to the Fund.

### Stock Options

The Company computes total compensation expense to stock options, which are granted to employees and directors, by fair value method using the option-pricing model. The compensation expense has been accounted for as a charge to current operations and a credit to capital adjustments from the grant date using the straight-line method.

## Derivative Instruments

All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations. The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations.

The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

## Accounting for Foreign Currency Transactions and Translation

The Company maintains its accounts in Korea won. Transactions in foreign currencies are recorded in Korean won based on the prevailing rates of exchange on the transaction date. Monetary accounts with balances denominated in foreign currencies are recorded and reported in the accompanying non-consolidated financial statements at the exchange rates prevailing at the balance sheet dates. The balances have been translated using the Bank of Korea Basic Rate, which was ₩1,197.80 and ₩1,200.40 to US\$1.00 at December 31, 2003 and 2002, respectively, and the translation loss and gain is reflected in current operations.

## Income Tax Expense

The Company recognizes deferred income taxes. Accordingly, income tax expense is determined by adding or deducting the total income tax and surtaxes to be paid for the current period and the changes in deferred income tax debits (credits). The difference between the income tax expense and the amount of income tax shown in the current period's tax return will be offset against the deferred income tax credits (debits), which will occur in subsequent periods.

## Earnings Per Share

Ordinary income per common share and earnings per common share are computed by dividing ordinary income (after deduction for tax effect) and net income, respectively, by the weighted average number of common shares outstanding during period. The numbers of shares used in computing earnings per common share are 362,335,493 and 367,993,115 for the years ended December 31, 2003 and 2002, respectively. Diluted ordinary income per share and diluted earnings per share are computed by dividing ordinary income and net income, after addition for the effect of expenses related to diluted securities on net income, by the number of the weighted average number of common shares plus the number of dilutive potential common shares. Stock options, which have dilutive effect, are regarded as being exercised at the beginning of the period, and the number of dilutive potential common shares computed using treasury stock method (352,306 shares in 2003) is added to the diluted number of common shares. Stock options granted to employees and directors as of December 31, 2002 have no dilutive effect on ordinary income per share and earnings per share.

# NOTES TO NON - CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

## 3. INVENTORIES :

Inventories as of December 31, 2003 and 2002 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Finished goods and merchandise	₩ 282,933	₩ 195,570	\$ 236,211	\$ 163,274
Semi - finished goods and work in process	199,986	116,130	166,960	96,953
Raw materials and supplies	134,279	126,631	112,105	105,720
Materials in transit	58,541	46,687	48,874	38,977
	₩ 675,739	₩ 485,018	\$ 564,150	\$ 404,924

## 4. LONG - TERM INVESTMENT SECURITIES :

(1) Long - term investment securities as of December 31, 2003 consist of the following :

	Korean won (in millions)	U.S. dollars (Note 2) (in thousands)
	2003	2003
Available - for - sale securities	₩ 1,215,949	\$ 1,015,152
Held - to - maturity securities	21,268	17,756
	₩ 1,237,217	\$ 1,032,908

(2) Available - for - sale securities included in long - term investment securities as of December 31, 2003 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	Acquisition cost	Book value	Book value	Percentage of ownership (%)
Listed equity securities:				
Hyundai MOBIS	₩ 119,000	₩ 997,275	\$ 832,589	18.35
INI Steel Co., Ltd.	99,999	190,675	159,188	18.36
LG Telecom Co., Ltd.	10,056	6,702	5,595	0.66
KT Freetel Co., Ltd.	7,200	4,251	3,549	0.12
Kia Steel Co., Ltd.	854	703	587	0.17
Kanglim Specific Equipment Automotive Co., Ltd.	347	48	40	0.38
Stock Market Stabilization Fund	2,411	9,646	8,053	-
Other	30	1	1	-
Unlisted equity securities:				
Dongwon Capital Co., Ltd.	3,000	3,000	2,505	4.62
Asset Management Co., Ltd.	950	950	793	19.99
Kihyup Technology Banking Corp.	700	700	584	2.41
Mobil.com Co., Ltd.	600	600	501	5.80
Dongyung Industries Co., Ltd.	241	241	201	19.35
Namyang Industrial Co., Ltd.	200	200	167	8.00
The Korea Economic Daily Co., Ltd.	168	168	140	0.22
Other	3,339	789	659	-
	₩ 249,095	₩ 1,215,949	\$ 1,015,152	

Available - for - sale securities are valued at fair value. However, available - for - sale securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are valued at cost. The difference between the book value and the acquisition cost of available - for - sale securities, amounting to ₩966,854 million (US\$807,192 thousand) as of December 31, 2003, consist of gain on valuation of long - term investment securities of ₩969,404 million (US\$809,320 million) reflected in capital adjustments and an impairment loss of ₩2,550 million (US\$2,129 thousand) in 2002.

(3) Held - to - maturity securities as of December 31, 2003 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	Acquisition cost	Present value discount	Book value	Book value
Government and municipal bonds	₩ 10,213	₩ -	₩ 10,213	\$ 8,526
Corporate bonds:				
Acrowave Co., Ltd.	89	-	89	74
Subordinated bonds:				
Seoul Guarantee Insurance Company	16,200	5,234	10,966	9,156
	₩ 26,502	₩ 5,234	₩ 21,268	\$ 17,756

As the interest rates and repayment periods of corporate bonds were changed by mutual agreement in 1999, the difference between nominal value and present value was presented as bad debt expense, and amortized using the effective interest method over the remaining period.

Maturities of held - to - maturity securities are as follows :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
Maturity	2003		2003	
1 ~ 5 years	₩ 24,269		\$ 20,261	
6 ~ 10 years	2,233		1,864	
	₩ 26,502		\$ 22,125	

(4) The Company has pledged the following long - term investment securities as collateral for various short - term and long - term borrowings as of December 31, 2003 :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	Number of shares pledged	2003	2003	
Kia Steel Co., Ltd.	8,755	₩ 84	\$ 70	
Kisan Mutual Saving's & Finance	306,160	-	-	
Other	1,500	320	267	
		₩ 404	\$ 337	



# NOTES TO NON - CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

## 5. EQUITY SECURITIES ACCOUNTED FOR USING THE EQUITY METHOD :

(1) Equity securities accounted for using the equity method as of December 31, 2003 consist of the following :

	Korean won (in millions)			U.S. dollars (Note 2) (in thousands)			
	Acquisition cost	Net equity value	Book value	Acquisition cost	Net equity value	Book value	Ownership percentage (%)
Kia Motors America, Inc.	₩ 66,798	₩ 4,781	₩ -	\$ 55,767	\$ 3,991	\$ -	100.00
Kia Canada, Inc.	58,507	6,537	-	48,845	5,458	-	82.53
Kia Motors Deutschland GmbH	53,139	(2,751)	-	44,364	(2,297)	-	100.00
Kia Motors Europe GmbH	44,695	55,662	25,470	37,314	46,470	21,264	100.00
Kia Japan Co., Ltd.	33,197	25,821	25,821	27,715	21,557	21,557	100.00
PT. Kia Timor Motors	10,908	13,226	13,226	9,107	11,042	11,042	30.00
Dong feng Yueda - Kia Motors Co., Ltd.	50,893	61,783	70,593	42,489	51,580	58,936	50.00
Kia Tigers Co., Ltd.	20,300	221	10,081	16,948	185	8,416	100.00
Hyundai Powertech Co., Ltd.	120,000	128,607	128,607	100,184	107,369	107,369	50.00
WIA Corporation	347	87,535	61,325	290	73,080	51,198	45.30
Haevichi Resort Co., Ltd. (formerly Cheju Dynasty Co., Ltd.)	8,520	5,161	6,048	7,113	4,309	5,049	40.00
Bontek Co., Ltd.	1,950	17,973	13,907	1,628	15,005	11,610	39.00
Donghui Auto Co., Ltd.	10,530	5,528	10,530	8,791	4,615	8,791	35.12
Beijing Hyundai Mobis Automotive Parts Co., Ltd.	13,518	13,264	13,307	11,286	11,074	11,110	30.00
TRW Steering Co., Ltd.	8,952	6,207	8,094	7,474	5,182	6,757	29.00
Dymos Inc.	41,680	47,998	52,026	34,797	40,072	43,436	27.29
e - HD.com Inc.	4,558	2,650	2,650	3,805	2,212	2,212	22.76
Hyundai Hysco Co., Ltd.	64,829	214,999	143,365	54,123	179,495	119,690	24.06
Autoever Systems Co., Ltd. (formerly Autoever Co., Ltd.)	1,000	3,285	3,285	835	2,743	2,743	20.00
Hyundai card Co., Ltd.	123,336	23,885	107,936	102,969	19,941	90,112	20.72
EUKOR Car Carriers, Inc. (*)	19,565	28,395	21,202	16,334	23,706	17,701	8.00
Yan Ji Kia Motors A/S	1,792	-	1,792	1,496	-	1,496	100.00
NGVTEK Com	250	-	250	209	-	209	24.39
Kia Service Philippines Co., Ltd.	185	-	185	154	-	154	20.00
EUKOR Car Carriers Singapore Pte. (*)	5	-	5	4	-	4	8.00
	₩ 759,454	₩ 750,767	₩ 719,705	\$ 634,041	\$ 626,789	\$ 600,856	

(\*) The shares of the Company and its affiliates on these investees total more than 20 percent of the outstanding shares; accordingly, the Company applied the equity method.

Equity securities are valued based on the unaudited financial statements with adjustments made for the effects of any significant events or transactions. Also, significant unrealized profit (loss) on intercompany transactions is eliminated.

The difference between the acquisition cost and the Company's portion of an investee's net equity at the date the Company was considered to be able to exercise significant influence over the operating and financial policy of an investee is amortized over 5 years for positive goodwill or reversed over the remaining weighted average useful life of the identifiable acquired depreciable assets for negative goodwill, using the straight - line method.

As of December 31, 2003, the difference between acquisition cost and equity value of ₩39,749 million (US\$33,185 thousand) was accounted

for as a charge to beginning retained earnings for ₩120,904 million (US\$100,938 thousand) up to prior year, gain on valuation of ₩53,250 million (US\$44,457 thousand) reflected in current operations and gain on valuation of equity securities accounted for using the equity method of ₩27,905 million (US\$23,296 thousand) reflected in capital adjustments.

Equity securities accounted for using the equity method as of December 31, 2002 consist of the following :

	Korean won (in millions)			U.S. dollars (Note 2) (in thousands)			Ownership percentage (%)
	Acquisition cost	Net equity value	Book value	Acquisition cost	Net equity value	Book value	
Kia Motors America, Inc.	₩ 66,798	₩ 36,305	₩ -	\$ 55,767	\$ 30,310	\$ -	100.00
Kia Canada, Inc.	58,507	(341)	-	48,845	(285)	-	82.53
Kia Motors Deutschland GmbH	53,139	(1,779)	-	44,364	(1,485)	-	100.00
Kia Motors Europe GmbH	41,060	38,911	20,666	34,280	32,485	17,253	100.00
Kia Japan Co., Ltd.	33,197	23,479	23,479	27,715	19,602	19,602	100.00
PT. Kia Timor Motors	10,908	11,532	11,532	9,107	9,628	9,628	30.00
Dong feng Yueda - Kia Motors Co., Ltd.	22,316	15,259	19,007	18,631	12,739	15,868	50.00
Kia Tigers Co., Ltd.	20,300	290	14,094	16,948	242	11,767	100.00
Hyundai Powertech Co., Ltd.	70,000	70,263	70,263	58,440	58,660	58,660	50.00
WIA Corporation	347	61,911	32,425	290	51,687	27,070	45.30
Haevichi Resort Co., Ltd.	8,520	3,438	4,788	7,113	2,870	3,997	40.00
Bontek Co., Ltd.	1,950	11,891	6,470	1,628	9,927	5,402	39.00
Donghui Auto Co., Ltd.	10,530	29,716	10,530	8,791	24,809	8,791	35.12
TRW Steering Co., Ltd.	8,952	6,564	9,080	7,474	5,480	7,581	29.00
Dymos Inc.	30,850	27,077	33,119	25,756	22,606	27,651	27.07
e - HD.com Inc.	4,558	3,329	3,329	3,805	2,779	2,779	22.76
Hyundai Hysco Co., Ltd.	64,829	192,689	115,086	54,123	160,869	96,081	21.57
Autoever Systems Co., Ltd.	1,000	2,186	2,186	835	1,825	1,825	20.00
Yan Ji Kia Motors A/S	1,792	-	1,792	1,496	-	1,496	100.00
NGVTEK Com	250	-	250	209	-	209	24.39
Kia Service Philippines Co.	185	-	185	154	-	154	20.00
	₩ 509,988	₩ 532,720	₩ 378,281	\$ 425,771	\$ 444,748	\$ 315,814	

As of December 31, 2002, the difference between acquisition cost and equity value of ₩131,707 million (US\$109,957 thousand) was accounted for as a charge to beginning accumulated deficit for ₩164,680 million (US\$137,485 thousand) up to prior year, gain on valuation of ₩43,776 million (US\$36,547 thousand) reflected in current operations and loss on valuation of equity securities accounted for using the equity method of ₩10,803 million (US\$9,019 thousand) reflected in capital adjustments.

## NOTES TO NON - CONSOLIDATED FINANCIAL STATEMENTS

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(2) The changes in goodwill or negative goodwill incurred from the equity securities of affiliates subject to equity method accounting for the year ended December 31, 2003 are as follows :

	Korean won (in millions)			U.S. dollars (Note 2) (in thousands)	
	Beginning of period	Increase	Amortization	End of period	End of period
Kia Tigers Co., Ltd.	₩ 13,804	₩ -	₩ 3,944	₩ 9,860	\$ 8,232
Dong feng Yueda - Kia Motors Co., Ltd.	3,748	7,500	2,438	8,810	7,355
Haevichi Resort Co., Ltd.	1,350	-	463	887	741
TRW Steering Co., Ltd.	2,516	-	629	1,887	1,575
Dymos Inc.	6,042	-	2,014	4,028	3,363
Hyundai card Co., Ltd.	-	93,389	9,338	84,051	70,171
Beijing Hyundai Mobis Automotive Parts Co., Ltd.	-	47	4	43	36
Hyundai Hysco Co., Ltd.	(77,603)	-	(5,969)	(71,634)	(59,805)
WIA Corporation	(29,486)	-	(3,276)	(26,210)	(21,882)
Bontek Co., Ltd.	(5,421)	-	(1,355)	(4,066)	(3,395)
EUKOR Car Carriers, Inc.	-	(7,572)	(379)	(7,193)	(6,005)
	<b>₩ (85,050)</b>	<b>₩ 93,364</b>	<b>₩ 7,851</b>	<b>₩ 463</b>	<b>\$ 386</b>

The changes in goodwill or negative goodwill incurred from the equity securities of affiliates subject to equity method accounting for the year ended December 31, 2002 are as follows:

	Korean won (in millions)			U.S. dollars (Note 2) (in thousands)	
	Beginning of period	Increase	Amortization	End of period	End of period
Kia Tigers Co., Ltd.	₩ 17,749	₩ -	₩ 3,945	₩ 13,804	\$ 11,524
Dong feng Yueda - Kia Motors Co., Ltd.	-	4,685	937	3,748	3,129
Haevichi Resort Co., Ltd.	1,812	-	462	1,350	1,127
TRW Steering Co., Ltd.	3,145	-	629	2,516	2,101
Dymos Inc.	8,056	-	2,014	6,042	5,044
Hyundai Hysco Co., Ltd.	(83,573)	-	(5,970)	(77,603)	(64,788)
WIA Corporation	(32,762)	-	(3,276)	(29,486)	(24,617)
Bontek Co., Ltd.	(6,776)	-	(1,355)	(5,421)	(4,526)
	<b>₩ (92,349)</b>	<b>₩ 4,685</b>	<b>₩ (2,614)</b>	<b>₩ (85,050)</b>	<b>\$ (71,006)</b>

(3) Details of valuation using the equity method for the year ended December 31, 2003 are as follows :

	Korean won (in millions)			U.S. dollars (Note 2) (in thousands)	
	Beginning of period	Gain / Loss	Others (**)	End of period	End of period
Kia Motors America, Inc.	₩ -	₩ -	₩ -	₩ -	\$ -
Kia Canada, Inc.	-	-	-	-	-
Kia Motors Deutschland GmbH	-	-	-	-	-
Kia Motors Europe GmbH	20,666	(10,283)	15,087	25,470	21,264
Kia Japan Co., Ltd.	23,479	(122)	2,464	25,821	21,557
PT. Kia Timor Motors	11,532	1,067	627	13,226	11,042
Dong feng Yueda - Kia Motors Co., Ltd.	19,007	22,669	28,917	70,593	58,936
Kia Tigers Co., Ltd.	14,094	(4,013)	-	10,081	8,416
Hyundai Powertech Co., Ltd.	70,263	8,339	50,005	128,607	107,369
WIA Corporation	32,425	28,900	-	61,325	51,198
Haevichi Resort Co., Ltd.	4,788	1,260	-	6,048	5,049
Bontek Co., Ltd.	6,470	7,437	-	13,907	11,610
Donghui Auto Co., Ltd.	10,530	-	-	10,530	8,791
Beijing Hyundai Mobis Automotive Parts Co., Ltd.	-	(287)	13,594	13,307	11,110
TRW Steering Co., Ltd.	9,080	(986)	-	8,094	6,757
Dymos Inc.	33,119	6,567	12,340	52,026	43,436
e - HD.com Inc.	3,329	(670)	(9)	2,650	2,212
Hyundai Hysco Co., Ltd.	115,086	17,608	10,671	143,365	119,690
Autoever Systems Co., Ltd.	2,186	1,099	-	3,285	2,743
Hyundai card Co., Ltd.	-	(25,278)	133,214	107,936	90,112
EUKOR Car Carriers, Inc.	-	(57)	21,259	21,202	17,701
Yan Ji Kia Motors A/S (*)	1,792	-	-	1,792	1,496
NGVTEK Com (*)	250	-	-	250	209
Kia Service Philippines Co. (*)	185	-	-	185	154
EUKOR Car Carriers Singapore Pte. (*)	-	-	5	5	4
	₩ 378,281	₩ 53,250	₩ 288,174	₩ 719,705	\$ 600,856

(\*) Excluded from using the equity method as individual beginning balance of assets are less than the required assets level of ₩ 7,000 million and the differences arising from the use of the equity method are not considered material, which are stated at cost.

(\*\*) Others are composed of acquisition or disposal amounts of equity securities, the changes in retained earnings and capital adjustments.



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Details of valuation using the equity method for the year ended December 31, 2002 are as follows :

	Korean won (in millions)			U.S. dollars (Note 2) (in thousands)	
	Beginning of period	Gain / Loss	Others (**)	End of period	End of period
Kia Motors America, Inc.	₩ -	₩ -	₩ -	₩ -	\$ -
Kia Canada, Inc.	-	-	-	-	-
Kia Motors Deutschland GmbH	-	-	-	-	-
Kia Motors Europe GmbH	-	(20,395)	41,061	20,666	17,253
Kia Japan Co., Ltd.	23,598	(197)	78	23,479	19,602
PT. Kia Timor Motors	11,205	(327)	654	11,532	9,628
Dong feng Yueda - Kia Motors Co., Ltd.	267	1,753	16,987	19,007	15,868
Kia Tigers Co., Ltd.	18,221	(4,127)	-	14,094	11,767
Hyundai Powertech Co., Ltd.	34,393	6,109	29,761	70,263	58,660
WIA Corporation	347	32,078	-	32,425	27,070
Haevichi Resort Co., Ltd.	4,828	(40)	-	4,788	3,997
Bontek Co., Ltd.	1,950	4,520	-	6,470	5,402
Donghui Auto Co., Ltd.	-	-	10,530	10,530	8,791
TRW Steering Co., Ltd.	8,952	128	-	9,080	7,581
Dymos Inc.	31,531	1,649	(61)	33,119	27,651
e - HD.com Inc.	1,505	(254)	2,078	3,329	2,779
Hyundai Hysco Co., Ltd.	91,320	21,693	2,073	115,086	96,081
Autoever Systems Co., Ltd.	1,000	1,186	-	2,186	1,825
Yan Ji Kia Motors A/S (*)	1,792	-	-	1,792	1,496
NGVTEK Com (*)	250	-	-	250	209
Kia Service Philippines Co. (*)	185	-	-	185	154
	<b>₩ 231,344</b>	<b>₩ 43,776</b>	<b>₩ 103,161</b>	<b>₩ 378,281</b>	<b>\$ 315,814</b>

(\*) Excluded from using the equity method as individual beginning balance of assets are less than the required assets level of ₩ 7,000 million and the differences arising from the use of the equity method are not considered material, which are stated at cost.

(\*\*) Others are composed of acquisition or disposal amounts of investment securities, the changes in retained earnings and capital adjustments.

(4) The cumulative losses not recognized by the Company due to the suspension of the valuation of equity securities accounted for using the equity method as of December 31, 2003 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	Cumulative losses	Unrealized gains	Cumulative losses	Unrealized gains
Kia Motors America, Inc.	₩ -	₩ 133,364	\$ -	\$ 111,341
Kia Motors Deutschland GmbH	2,751	26,088	2,297	21,780
Kia Canada, Inc.	-	7,756	-	6,475
	<b>₩ 2,751</b>	<b>₩ 167,208</b>	<b>\$ 2,297</b>	<b>\$ 139,596</b>

The cumulative losses not recognized by the Company due to the suspension of the valuation of equity securities accounted for using the equity method as of December 31, 2002 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	Cumulative losses	Unrealized gains	Cumulative losses	Unrealized gains
Kia Motors America, Inc.	₩ -	₩ 110,983	\$ -	\$ 92,657
Kia Motors Deutschland GmbH	38,210	24,990	31,900	20,863
Kia Canada, Inc.	11,208	8,954	9,357	7,475
	<b>₩ 49,418</b>	<b>₩ 144,927</b>	<b>\$ 41,257</b>	<b>\$ 120,995</b>

(5) The Company has pledged the following equity securities accounted for using the equity method as collateral for long - term borrowings as of December 31, 2003 :

	Number of shares pledged	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
		2003		2003	
EUKOR Car Carriers, Inc.	1,760,000	₩ 21,202		\$ 17,701	
EUKOR Car Carriers Singapore, Pte.	8,000	5		4	
		<b>₩ 21,207</b>		<b>\$ 17,705</b>	

## 6. MARKETABLE SECURITIES AND INVESTMENT SECURITIES :

(1) Marketable securities as of December 31, 2002 are stated at fair value and consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2002		2002	
Debt securities	₩ 19,565		\$ 16,335	

(2) Investment securities as of December 31, 2002 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2002		2002	
Marketable investment equity securities	₩ 433,234		\$ 361,691	
Unlisted equity securities	40,895		34,141	
Debt securities	25,646		21,411	
	<b>₩ 499,775</b>		<b>\$ 417,243</b>	

# NOTES TO NON - CONSOLIDATED FINANCIAL STATEMENTS

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(3) Marketable investment equity securities as of December 31, 2002 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	Acquisition cost	Book value	Book value	Percentage of ownership (%)
Hyundai MOBIS	₩ 70,047	₩ 302,107	\$ 252,218	16.26
INI Steel Co., Ltd.	99,999	105,325	87,932	15.60
LG Telecom Co., Ltd.	10,056	8,020	6,696	0.59
Kia Steel Co., Ltd.	96	169	141	0.52
Kanglim Specific Equipment Automotive Co., Ltd.	347	68	57	0.38
SK Telecom Co., Ltd.	837	5,716	4,772	0.03
Samho Co., Ltd.	16	1	1	-
Samlip General Food Co., Ltd.	14	-	-	-
Stock Market Stabilization Fund	6,442	11,828	9,874	-
	<b>₩ 187,854</b>	<b>₩ 433,234</b>	<b>\$ 361,691</b>	

(4) Unlisted equity securities as of December 31, 2002 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	Acquisition cost	Book value	Book value	Percentage of ownership (%)
EUKOR Car Carries, Inc	₩ 19,565	₩ 19,565	\$ 16,334	8.00
Wuhan Grand Motor Co., Ltd.(*)	7,500	7,500	6,261	21.40
KT I Com Co., Ltd.	7,200	7,200	6,011	0.40
Dongwon Capital Co., Ltd.	3,000	3,000	2,505	4.62
Daeshin Factoring Co., Ltd.	2,000	-	-	3.33
Asset Management Co., Ltd.	950	950	793	19.99
Kihyup Technology Banking Corp.	700	700	584	2.41
Mobil.com Co., Ltd.	600	600	501	6.02
A.P. Co., Ltd.	550	-	-	9.20
Dongyung Industries Co., Ltd.	241	241	201	19.23
Namyang Industrial Co., Ltd.	200	200	167	8.00
The Korea Economic Daily Co., Ltd.	168	168	140	0.22
Other	771	771	644	-
	<b>₩ 43,445</b>	<b>₩ 40,895</b>	<b>\$ 34,141</b>	

(\*) Excluded from using the equity method as the investment was regarded temporary.

The value of investments in equity securities of Daeshin Factoring Co., Ltd. and A.P. Co., Ltd. has declined and is not expected to recover, and accordingly, the difference between the book value and the fair value has been charged to current operations as an investment impairment loss.

(5) Debt securities as of December 31, 2002 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	Acquisition cost	Present Value Discount	Book value	Book value
Corporate bonds:				
Kia Steel Co., Ltd.	₩ 32,698	₩ 16,959	₩ 15,739	\$ 13,140
Acrowave Co., Ltd.	89	-	89	74
Subordinated bonds:				
Seoul Guarantee Insurance Company	16,200	6,382	9,818	8,197
	<b>₩ 48,987</b>	<b>₩ 23,341</b>	<b>₩ 25,646</b>	<b>\$ 21,411</b>

As the interest rates and repayment periods of corporate bonds were changed by mutual agreement in 1999, the difference between nominal value and present value was presented as bad debt expense, and amortized using the effective interest method over the remaining period.

## 7. PROPERTY, PLANT AND EQUIPMENT :

Property, plant and equipment as of December 31, 2003 and 2002 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Buildings and structures	₩ 1,348,211	₩ 1,222,836	\$ 1,125,573	\$ 1,020,902
Machinery and equipment	2,189,241	1,987,189	1,827,719	1,659,032
Vehicles	46,274	44,632	38,632	37,262
Dies, moulds and tools	1,192,788	1,077,454	995,816	899,527
Other equipment	194,345	176,730	162,251	147,546
	4,970,859	4,508,841	4,149,991	3,764,269
Less: Accumulated depreciation	(2,151,627)	(1,882,817)	(1,796,316)	(1,571,895)
	2,819,232	2,626,024	2,353,675	2,192,374
Land	1,422,030	1,399,283	1,187,201	1,168,211
Construction in progress	422,098	141,547	352,394	118,172
	₩ 4,663,360	₩ 4,166,854	\$ 3,893,270	\$ 3,478,757

The changes in property, plant and equipment in 2003 are as follows :

	Korean won (in millions)						U.S. dollars (Note 2) (in thousands)	
	Beginning of period	Acquisition	Transfer	Disposal	Depreciation	Other changes	End of period	End of period
Land	₩ 1,399,283	₩ -	₩ 34,829	₩ (12,082)	₩ -	₩ -	₩ 1,422,030	\$ 1,187,201
Buildings and structures	1,021,484	-	134,765	(5,992)	(46,810)	-	1,103,447	921,228
Machinery and equipment	1,226,206	-	348,240	(70,323)	(192,293)	-	1,311,830	1,095,200
Vehicles	23,504	-	14,794	(2,001)	(8,438)	-	27,859	23,258
Dies, molds and tools	271,147	-	146,802	(996)	(122,765)	-	294,188	245,607
Other equipment	83,683	-	28,240	(918)	(29,097)	-	81,908	68,382
Construction in progress	141,547	1,018,305	(707,670)	(54,084)	-	24,000	422,098	352,394
End of the period	₩ 4,166,854	₩ 1,018,305	₩ -	₩ (146,396)	₩ (399,403)	₩ 24,000	₩ 4,663,360	\$ 3,893,270



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The changes in property, plant and equipment in 2002 are as follows :

	Korean won (in millions)						U.S. dollars (Note 2) (in thousands)	
	Beginning of period	End of period	Transfer	Disposal	Depreciation	Other changes	End of period	End of period
Land	₩ 1,433,236	₩ -	₩ 1,425	₩ (35,378)	₩ -	₩ -	₩ 1,399,283	\$ 1,168,211
Buildings and structures	1,044,816	-	26,738	(5,333)	(44,737)	-	1,021,484	852,800
Machinery and equipment	1,325,493	-	136,590	(43,221)	(192,656)	-	1,226,206	1,023,715
Vehicles	20,702	-	14,359	(3,354)	(8,203)	-	23,504	19,623
Dies, molds and tools	305,978	-	124,371	(11,153)	(148,049)	-	271,147	226,371
Other equipment	74,567	-	37,341	(874)	(27,351)	-	83,683	69,865
Construction in progress	98,645	383,728	(340,824)	(2)	-	-	141,547	118,172
End of the period	₩ 4,303,437	₩ 383,728	₩ -	₩ (99,315)	₩ (420,996)	₩ -	₩ 4,166,854	\$ 3,478,757

As of December 31, 2003, the Company's property, plant and equipment are pledged as collateral for various long - term debt to a maximum of ₩1,114,423 million (US\$930,392 thousand), and certain buildings and machinery of ₩78,231 million (US\$65,312 thousand) are mortgaged for various loans (see Notes 11 and 12).

The published value of the Company - owned land totals ₩1,257,885 million (US\$1,050,163 thousand), and ₩1,110,428 million (US\$927,056 thousand) as of December 31, 2003 and 2002, respectively, in terms of land prices officially announced by the Korean government.

## 8. INSURANCE :

As of December 31, 2003, inventories and property, plant and equipment are insured for ₩3,236,826 million (US\$2,702,309 thousand). In addition, the Company carries general insurance for vehicles and workers' compensation and casualty insurance for employees. Also, the Company has insurance to cover potential product liability arising from its product liability claims in North America with maximum coverage of US\$75,000 thousand and in the domestic with maximum coverage of ₩2,000 million (US\$1,670 thousand).

## 9. INTANGIBLES :

Intangibles as of December 31, 2003 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	Acquisition cost	Accumulated amortization	Book value	Book value
Industrial property rights	₩ 9,303	₩ 4,404	₩ 4,899	\$ 4,090
Right of utilization	18,662	7,556	11,106	9,272
Development costs	556,562	118,753	437,809	365,511
	₩ 584,527	₩ 130,713	₩ 453,814	\$ 378,873

Intangibles as of December 31, 2002 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	Acquisition cost	Accumulated amortization	Book value	Book value
Industrial property rights	₩ 7,531	₩ 3,715	₩ 3,816	\$ 3,186
Right of utilization	18,662	5,690	12,972	10,829
Development costs	335,541	52,605	282,936	236,213
	<b>₩ 361,734</b>	<b>₩ 62,010</b>	<b>₩ 299,724</b>	<b>\$ 250,228</b>

The changes in book value of intangible assets for the year ended December 31, 2003 are as follows :

	Korean won (in millions)			U.S. dollars (Note 2) (in thousands)	
	Industrial property rights	Right of utilization	Development costs	Total	Total
Beginning of the year	₩ 3,816	₩ 12,972	₩ 282,936	₩ 299,724	\$ 250,228
Addition: Expenditures	1,772	-	221,020	222,792	186,001
Deduction: Amortization	(689)	(1,866)	(66,147)	(68,702)	(57,356)
End of the year	<b>₩ 4,899</b>	<b>₩ 11,106</b>	<b>₩ 437,809</b>	<b>₩ 453,814</b>	<b>\$ 378,873</b>

The changes in book value of intangible assets for the year ended December 31, 2002 are as follows :

	Korean won (in millions)			U.S. dollars (Note 2) (in thousands)	
	Industrial property rights	Right of utilization	Development costs	Total	Total
Beginning of the year	₩ 3,476	₩ 14,838	₩ 158,569	₩ 176,883	\$ 147,673
Addition: Expenditures	964	-	163,477	164,441	137,285
Deduction: Amortization	(624)	(1,866)	(36,144)	(38,634)	(32,254)
Other	-	-	(2,966)	2,966	2,476
End of the year	<b>₩ 3,816</b>	<b>₩ 12,972</b>	<b>₩ 282,936</b>	<b>₩ 299,724</b>	<b>\$ 250,228</b>

Research and development costs for the years ended December 31, 2003 and 2002 are as follows :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Development costs	₩ 221,020	₩ 163,477	\$ 184,522	\$ 136,481
Research costs (Manufacturing cost)	79,773	114,147	66,599	95,297
Research costs (SG&A)	126,799	114,348	105,860	95,465
Other expense	-	541	-	452
	<b>₩ 427,592</b>	<b>₩ 392,513</b>	<b>\$ 356,981</b>	<b>\$ 327,695</b>

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## 10. OTHER ASSETS :

Other assets as of December 31, 2003 and 2002 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Long - term deposits	₩ 56,423	₩ 59,261	\$ 47,106	\$ 49,475
Long - term trade notes and accounts receivable, net of unamortized present value discount of ₩1,446 million in 2003 and ₩2,369 million in 2002 (see Note 2)	7,780	11,588	6,495	9,674
Lease and rental deposits	143,721	134,849	119,988	112,581
Other	60,473	34,640	50,486	28,919
	₩ 268,397	₩ 240,338	\$ 224,075	\$ 200,649

## 11. SHORT - TERM BORROWINGS :

Short - term borrowings as of December 31, 2003 and 2002 amount to ₩789,942 million (US\$659,494 thousand) and ₩41,299 million (US\$34,479 thousand), respectively, and consist of bank loans and commercial papers with annual interest rate ranging from 0.34 percent to 4.63 percent. These borrowings are secured by certain bank deposits, investment securities and property, plant and equipment (See Notes 4, 5 and 7).

## 12. LONG - TERM DEBT :

Long - term debt as of December 31, 2003 and 2002 consists of the following :

	Annual interest rate (%)	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2003	2003	2002	2003	2002
Debentures	2.6~9.4	₩ 403,775	₩ 769,476	\$ 337,097	\$ 642,408
Local currency loans					
Reorganization claims	5.11	436,309	524,855	364,259	438,183
Other loans	1.0~6.0	21,527	20,335	17,972	16,976
		457,836	545,190	382,231	455,169
Foreign currency loans					
Reorganization claims	5.11	121,596	148,611	101,516	124,071
Total long - term debt		983,207	1,463,277	820,844	1,221,638
Less : Current maturities		(112,929)	(112,551)	(94,280)	(93,965)
		₩ 870,278	₩ 1,350,726	\$ 726,564	\$ 1,127,673

Debentures as of December 31, 2003 and 2002 consist of the following :

		Annual interest rate (%)	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
Series	Maturity	2003	2003	2002	2003	2002
Local currency :						
259 th	February 15, 2004	7.0	₩ 250,000	₩ 250,000	\$ 208,716	\$ 208,716
Foreign currency :						
260 th	July 11, 2006	9.4	227,582	228,076	190,000	190,412
261 th	December 10, 2004	3.3	119,780	120,040	100,000	100,217
262 th	May 3, 2005	2.6	179,670	180,060	150,000	150,326
			777,032	778,176	648,716	649,671
Less : Discount of debentures issued			(3,477)	(8,700)	(2,903)	(7,263)
			773,555	769,476	645,813	642,408
Less : Current maturities of debentures			(369,780)	-	(308,716)	-
			₩ 403,775	₩ 769,476	\$ 337,097	\$ 642,408

Local currency loans as of December 31, 2003 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Reorganization claims:				
Korea Development Bank	₩ 111,952	₩ 134,339	\$ 93,465	\$ 112,155
Kyobo Life Insurance Co.	41,365	49,636	34,534	41,439
SG ABS Ltd.	27,998	33,595	23,374	28,047
Korea Development Leasing Corp.	24,607	29,527	20,544	24,651
Hanaro Finance	22,393	26,868	18,695	22,431
Korea Investment Trust Co., Ltd.	20,139	24,165	16,813	20,174
Nara Banking	18,468	22,161	15,418	18,501
Hyundai Investment & Securities	14,012	16,813	11,698	14,037
Korea Seoul Guarantee Insurance	12,561	13,849	10,487	11,562
Others	142,814	173,901	119,231	145,186
	436,309	524,854	364,259	438,183
Other loans	21,527	20,336	17,972	16,976
Sub total	457,836	545,190	382,231	455,159
Less: Current maturities	(88,612)	(87,784)	(73,980)	(73,287)
	₩ 369,224	₩ 457,406	\$ 308,251	\$ 381,872

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Foreign currency loans as of December 31, 2003 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Reorganization claims:				
Korea Development Bank	₩ 37,132	₩ 44,655	\$ 31,000	\$ 37,281
Bankers Trust Company	32,665	39,283	27,271	32,796
Woori Bank	12,445	14,416	10,390	12,035
First Citicorp Leasing Inc.	8,965	10,781	7,485	9,001
Korea Non - Bank Lease Financing	8,415	10,119	7,025	8,448
Citibank	6,617	7,958	5,524	6,644
Korea Development Leasing Corp.	3,472	4,175	2,899	3,486
Chohung Capital	3,160	3,800	2,638	3,172
Other	8,725	13,424	7,284	11,208
Sub total	121,596	148,611	101,516	124,071
Less : Current maturities	(24,317)	(24,767)	(20,300)	(20,678)
	₩ 97,279	₩ 123,844	\$ 81,216	\$ 103,393

In accordance with the court - approved reorganization plan, the above reorganization claims, with the exception of current maturities, will be repaid over seven years beginning 2002 to 2008, after a 3 - year grace period. The applicable interest rate is variable depending on the 3 - year non - guaranteed bond circulating earnings rate.

In addition to the pledged assets explained in Note 4, 5 and 7, 87 blank checks, 165 blank promissory notes, 2 promissory notes totalling ₩1,820 million (US\$1,519 thousand) are pledged as collateral for the short - term borrowings and the long - term local currency and foreign currency loans.

The maturities of long - term debt (excluding debentures) as of December 31, 2003 are as follows :

Year	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	Local currency loans	Foreign currency loans	Total	Total
2005	₩ 88,994	₩ 24,317	₩ 113,311	\$ 94,600
2006	89,720	24,317	114,037	95,206
2007	88,586	24,317	112,903	94,259
Thereafter	101,924	24,328	126,252	105,402
	₩ 369,224	₩ 97,279	₩ 466,503	\$ 389,467

## 13. COMMITMENTS AND CONTINGENCIES :

(1) At December 31, 2003, the outstanding balance of installment accounts receivable and notes receivable discounted with recourse amounts to ₩77,936 million (US\$65,066 thousand) and the outstanding balance of accounts receivable from export sales discounted with recourse amounts to ₩1,229,074 million (US\$1,026,109 thousand).

(2) The Company uses a customer financing system related to a long - term installment sales system and has provided guarantees of ₩48,272 million (US\$40,301 thousand) to the banks concerned as of December 31, 2003. These guarantees are all covered by insurance contracts, which regulate a customer and the Company as a contractor and a beneficiary, respectively.

(3) The Company is a defendant to seven lawsuits for compensation of losses or damages amounting to ₩13,383 million (US\$11,173 thousand) as of December 31, 2003. The outcome of these lawsuits is not currently determinable. In addition, the Company is carrying certain lawsuits



pertaining to the disputes with the Brazilian government and the Brazilian shareholders of Asia Motors Do Brazil S.A., which was established as a joint venture by Asia Motors with a Brazilian investor, in Brazilian court. Also, in 2002, the Company brought the case to the International Court of Arbitration to settle the disputes. The Company, stockholder of AMB, has already written off this investment of ₩14,057 million, and the Company estimates that the above matter does not and will not affect the Company's financial statements at this time.

(4) The Company made an agreement with its overseas sales subsidiaries in Germany, Belgium, the United Kingdom and Austria for them to be responsible for projected costs for dismantling and recycling vehicles sold in corresponding countries to comply with European Parliament directive regarding End - of - Life vehicles (ELV).

#### 14. CAPITAL STOCK :

Capital stock as of December 31, 2003 and 2002 consist of the following :

Year	Authorized	Issued	Par value	Korean won (in millions)	U.S. dollars (Note 2) (in thousands)
2003	820,000,000 shares	359,730,455 shares	₩ 5,000	₩ 1,848,652	\$ 1,543,373
2002	820,000,000 shares	369,730,455 shares	₩ 5,000	₩ 1,848,652	\$ 1,543,373

In accordance with the court - approved reorganization plan, on February 2, 1999 all issued shares of common stock, except those owned by specific related persons, were reduced by a ratio of 10 to 1, and the shares owned by the specific related persons were extinguished.

Also, under the court - approved reorganization plan, on March 30, 1999, ₩5,482,181 million (US\$ 4,576,875 thousand) of the Company's debt was forgiven, including its guaranteed obligations, and an additional ₩1,799,999 million (US\$1,502,754 thousand) of its liabilities was converted into capital stock for which 119,999,932 new shares were issued at ₩15,000 per share.

On December 7, 2000, ₩714 million (US\$596 thousand) of a creditor's claims in dispute was additionally determined by the court as the Company's reorganization claim and converted into capital stock for which 142,953 new shares were issued.

In accordance with the take - over contract with the Hyundai Motor Company, representing the Hyundai Motor Consortium, effective December 1, 1998, the Company issued new common stock of 172,431,118 shares amounting to ₩938,656 million (US\$783,650 thousand) and the Hyundai Motor Consortium acquired 153,000,000 shares amounting to ₩841,500 million (US\$702,539 thousand) for 51 percent as of March 30, 1999.

Financial institutions, with loans to the Company that had been forgiven or converted into the Company's common stock, and Hyundai Motor Consortium were granted rights to subscribe to the registered non - voting preferred stock with a par value of ₩5,000. On December 28, 1998, the financial institutions acquired rights equal to 10 percent of the forgiven debt and liabilities converted into new capital stock. Also, on December 28, 1998, the Hyundai Motor Consortium acquired rights up to the extent that the Consortium shall own up to 51 percent of all the additional preferred shares to be issued. These pre - emptive rights can be exercised at once or several times in the fifth or tenth year from December 28, 1999, the date the court finally approved the reorganization plan, and the Company shall pay the dividend equal to at least 2 percent for the preferred shares to be issued for the exercise of the rights. In 2003, the fifth year from the December 28, 1999, no pre - emptive right was exercised. In addition, the Asia Motors - invested financial institutions and Hyundai Motor Consortium were granted pre - emptive rights under the same conditions as described above.

The Company completed stock retirement of 10 million treasury stock on July 2, 2003, which had been acquired for such retirement purpose under the decision of the Board of Directors on May 9, 2003 and remaining shares of common stock are 359,730,455 shares. Due to this stock retirement, the sum of face value of stock issued (₩1,798,652 million) differs from the capital stock amount.

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## 15. CAPITAL SURPLUS :

Capital surplus as of December 31, 2003 and 2002 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Paid - in capital in excess of par value	₩ 1,580,065	₩ 1,580,065	\$ 1,319,139	\$ 1,319,139
Gain on capital reduction	119,859	119,859	100,066	100,066
Other	1,032	-	862	-
	<b>₩ 1,700,956</b>	<b>₩ 1,699,924</b>	<b>\$ 1,420,067</b>	<b>\$ 1,419,205</b>

As a result of the capital reduction on February 2, 1999, the Company recognized the gain in capital surplus in the amount of ₩340,848 million (US\$284,562 thousand). In 2001, the Company accounted for the loss from the stock retirement amounting to ₩220,989 million (US\$184,496 thousand) as a charged against the gain on capital reduction.

## 16. CAPITAL ADJUSTMENTS :

Capital adjustments as of December 31, 2003 and 2002 consist of the following :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Treasury stock	₩ (7,839)	₩ (9,631)	\$ (6,544)	\$ (8,040)
Loss on valuation of derivatives	(41,599)	-	(34,729)	-
Stock option cost	3,622	3,735	3,024	3,118
Gain on valuation of long - term investment securities	969,404	-	809,320	-
Gain (Loss) on valuation of equity securities accounted for using the equity method (see Note 5)	27,905	(10,803)	23,296	(9,019)
Gain on valuation of investment securities	-	245,380	-	204,859
	<b>₩ 951,493</b>	<b>₩ 228,681</b>	<b>\$ 794,367</b>	<b>\$ 190,918</b>

### (1) Treasury stock

As of December 31, 2003 and 2002, the Company has 1,309,723 shares and 1,609,158 shares of treasury stock, respectively, arising mainly from cross - holdings of investment equity securities due to mergers, and has recorded treasury stock at acquisition cost in capital adjustments as of those dates.

(2) Stock option cost

Stock options granted as of December 31, 2003 are summarized below.

	1st			2nd		
	Shares	Korean won (in millions)	U.S. dollars (Note 2) (in thousands)	Shares	Korean won (in millions)	U.S. dollars (Note 2) (in thousands)
Granted	950,000	₩ 3,735	\$ 3,118	695,000	₩ 2,974	\$ 2,483
Cancelled	(15,000)	(59)	(49)	(85,000)	(364)	(304)
Exercised	(299,435)	(1,177)	(983)	-	-	-
Remaining	635,565	₩ 2,499	\$ 2,086	610,000	₩ 2,610	\$ 2,179
Grant date	March 17, 2000			February 20, 2003		
Beginning date of exercise	March 18, 2003			February 21, 2006		
Exercise price	₩ 5,500			₩ 8,200		

If all of the stock options, which require at least two-year continued service, are exercised treasury stock will be issued in accordance with the decision of the Board of Directors. The Company calculates the total compensation expense using the option - pricing model. In the model, the risk - free rate of 10.0 percent and 4.74 percent, the expected exercise period of 5.5 years and the expected variation rate of stock price of 0.8387 and 0.9504, are adopted for the 1st and 2nd stock options, respectively. Total compensation expense has been accounted for as a charge to current operations and a credit to capital adjustments over the required period of service from the grant date using the straight - line method. In 2003, the Company has accounted for stock option expense amounting to ₩1,064 millions (US\$ 888 thousand) and 299,435 shares of treasury stock issued for stock option exercised.

**17. FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES :**

The assets and liabilities denominated in foreign currencies as of December 31, 2003 and 2002 are summarized below.

	Foreign currencies (in thousands)				Korean won (in millions)	
	2003		2002		2003	2002
Assets	USD	336,251	USD	310,639	₩ 402,762	₩ 372,896
	EUR	77,299	EUR	70,264	116,149	88,347
	CS	9,110	AUS	265	8,437	180
	AUS	265	DEM	96	238	62
					₩ 527,586	₩ 461,485
Liabilities	JPY	18,812,581	JPY	11,764,694	₩ 210,626	₩ 119,161
	USD	666,019	USD	642,708	797,757	771,507
	EUR	16,588	EUR	6,469	24,924	8,134
	AUS	2,119	AUS	534	1,900	362
	DM	3,596	DM	4,463	2,763	2,869
	PD	329	PD	190	700	365
	SF	124	SF	101	119	88
	SK	100	SK	205	17	28
	CS	1	DK	1,131	1	192
	-		FRF	488	-	94
					₩ 1,038,807	₩ 902,800

# NOTES TO NON - CONSOLIDATED FINANCIAL STATEMENTS

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## 18. INCOME TAX EXPENSE AND DEFERRED INCOME TAX ASSETS :

Income tax expense in 2003 and 2002 is computed as follows :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Income tax currently payable	₩ 159,178	₩ 105,370	\$ 132,892	\$ 87,970
Changes in deferred income taxes due to:				
Temporary differences	1,678	12,269	1,401	10,243
Tax loss carry forward	-	50,301	-	41,994
Tax credit carry forward	(12,680)	(8,009)	(10,586)	(6,686)
Income tax expense	₩ 148,176	₩ 159,931	\$ 123,707	\$ 133,521

The difference between income before tax in financial accounting and taxable income pursuant to Corporate Income Tax Law of Korea is as follows :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Income before tax	₩ 853,599	₩ 801,310	\$ 712,639	\$ 668,985
Permanent differences	5,385	12,493	4,496	10,430
Temporary differences	46,764	(39,267)	39,042	(32,783)
Other adjustments	594	23,227	495	19,392
	906,342	797,763	756,672	666,024
Tax loss carry forward	-	(169,363)	-	(141,396)
Taxable income	₩ 906,342	₩ 628,400	\$ 756,672	\$ 524,628

The changes in accumulated temporary difference in 2003 and 2002 and deferred income tax assets as of December 31, 2003 and 2002 are computed as follows :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Accumulated temporary difference				
Beginning of period, net	₩ 1,555,325	₩ 1,594,592	\$ 1,298,484	\$ 1,331,267
Changes in the current year, net	46,764	(39,267)	39,042	(32,783)
End of period, net	₩ 1,602,089	₩ 1,555,325	1,337,526	1,298,484
Statutory tax rate (%)	29.7/27.5	29.7	29.7/27.5	29.7
	460,254	461,932	384,249	385,650
Tax credit carry forward	157,091	144,411	131,150	120,564
Deferred income tax assets	₩ 617,345	₩ 606,343	\$ 515,399	\$ 506,214

The accumulated temporary differences as of December 31, 2003 do not include the temporary differences of ₩272,036 million (US\$227,113 thousand) for the gain on revaluation of land, which may not be disposed of in the near future.

When each temporary difference reverses in the future, it will result in a decrease (increase) of taxable income and income tax payable. Deferred income tax assets are recognized only when it is probable that the differences will be realized in the future.

Effective tax rate of 27.5% including resident tax surcharges is applied to temporary differences expected to be realized after 2005 as such change in corporate tax rate has been announced on December 30, 2003, which resulted in decrease in deferred tax assets by ₩15,567 million (US\$12,996 thousand).

## 19. DIVIDENDS :

The computation of the proposed dividends in 2003 and 2002 is as follows :

	Korean won (in millions, except per share amount)		U.S. dollars (Note 2) (in thousands, except per share amount)	
	2003	2002	2003	2002
Number of shares eligible for dividend	358,420,732	368,121,297	358,420,732	368,121,297
Face value per share	₩ 5,000	₩ 5,000	\$ 4	\$ 4
Face value dividend rate	7%	5%	7%	5%
Dividend	125,448	92,030	104,731	76,833
Dividend to net income	17.8%	14.3%	17.8%	14.3%
Dividend yield ratio	3.4%	2.6%	3.4%	2.6%

## 20. SUPPLEMENTARY INFORMATION FOR COMPUTATION OF VALUE ADDED :

The accounts and amounts needed for calculation of value added are as follows :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Ordinary income	₩ 853,599	₩ 801,310	\$ 712,639	\$ 668,985
Labor costs	1,766,597	1,609,923	1,474,868	1,344,067
Interest expense, net	(32,837)	13,865	(27,414)	11,575
Rent	13,932	10,984	11,631	9,170
Taxes and dues	19,521	20,011	16,297	16,706
Depreciation	401,958	423,486	335,580	353,553
	₩ 3,022,770	₩ 2,879,579	\$ 2,523,601	\$ 2,404,056

## 21. DERIVATIVE INSTRUMENT :

The Company has entered into derivative instrument contracts to hedge the exposure to variability in expected future cash flows of forecasted export sales that is attributable to changes in foreign exchange rate.

Derivative instrument contracts as of December 31, 2003 are summarized below.

Bank	Contract amounts (in thousand)	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
		Fair value	Valuation loss	Capital adjustments	Fair value
Koram Bank and other	EUR 907,000	₩ (73,025)	₩ (31,426)	₩ (41,599)	\$ (60,966)
Koram Bank and other	EUR 907,000	(17,394)	(17,394)	-	(14,522)
		₩ (90,419)	₩ (48,820)	₩ (41,599)	\$ (75,488)

The effective portion of the derivative contracts for cash flow hedging purpose from forecasted export sales recorded as a capital adjustment, amounting ₩41,599 million (US\$34,730 thousand) as of December 31, 2003, all of which were included in the determination of net income in 2004 and the ineffective portion of the derivative contracts recorded in current operations, amounting ₩48,820 million (US\$40,758 thousand)



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### 22. RELATED PARTY TRANSACTIONS :

Significant transactions with affiliated companies and related balances for the year ended and as of December 31, 2003 are summarized below.

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	Revenues	Expenses	Revenues	Expenses
Hyundai Motor Company	₩ 414,956	₩ 1,181,764	\$ 346,432	\$ 986,612
Hyundai MOBIS	46,798	488,651	39,070	407,957
Hyundai Hysco Co., Ltd.	120	76,872	100	64,178
Hyundai Capital Services, Inc.	30,361	110	25,347	92
Hyundai Powertek Co., Ltd.	12,797	199,208	10,684	166,312
Dymos Inc.	1,291	22,851	1,078	19,077
WIA Corporation	125,505	530,519	104,780	442,911
Bontec Co., Ltd.	27	77,736	23	64,899
Autoever Systems Co., Ltd.	1,515	29,540	1,265	24,662
KEFICO Corporation	2,034	60,377	1,698	50,407
Hankook Logitech Co., Ltd.	3	47,656	3	39,786
Asset Management Co., Ltd.	43	123,293	36	102,933
GLOVIS Co., Ltd.	1,812	63,223	1,513	52,783
Overseas subsidiaries and other	4,745,643	304,346	3,961,966	254,087
Total	₩ 5,382,905	₩ 3,206,146	\$ 4,493,995	\$ 2,676,696

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	Receivables	Payables	Receivables	Payables
Hyundai Motor Company	₩ 19,316	₩ 253,439	\$ 16,126	\$ 211,587
Hyundai MOBIS	33,031	150,626	27,576	125,752
Hyundai Hysco Co., Ltd.	-	7,919	-	6,611
Hyundai Capital Services, Inc.	2	4	2	3
Hyundai Powertek Co., Ltd.	21	47,009	18	39,246
Dymos Inc.	-	5,927	-	4,948
WIA Corporation	610	83,812	509	69,972
Bontec Co., Ltd.	3,183	12,446	2,657	10,391
Autoever Systems Co., Ltd.	3	12,324	3	10,289
KEFICO Corporation	-	10,092	-	8,425
Asset Management Co., Ltd.	-	52,047	-	43,452
GLOVIS Co., Ltd.	9	13,420	8	11,204
Donghui Auto Co., Ltd.	55,740	119	46,535	99
Overseas subsidiaries and other	168,082	19,336	140,326	16,143
Total	₩ 279,997	₩ 668,520	\$ 233,760	\$ 558,122

Significant transactions with affiliated companies and related balances for the year ended and as of December 31, 2002 are summarized below.

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	Revenues	Expenses	Revenues	Expenses
Hyundai Motor Company	₩ 444,741	₩ 1,055,147	\$ 371,298	\$ 880,904
Hyundai MOBIS	38,038	277,375	31,757	231,570
Hyundai Hysco Co., Ltd.	26	83,416	22	69,641
Hyundai Capital Services, Inc.	7,079	60	5,910	50
Hyundai Powertek Co., Ltd.	10,018	150,031	8,364	125,255
Dymos Inc.	155	9,918	129	8,280
WIA Corporation	99,123	403,914	82,754	337,213
TRW Steering Co., Ltd.	-	74,765	-	62,419
Bontec Co., Ltd.	6	95,775	5	79,959
Autoever Systems Co., Ltd.	3,411	19,442	2,848	16,231
KEFICO Corporation	1,261	49,113	1,053	41,003
Hankook Logitech Co., Ltd.	16	74,639	13	62,313
Overseas subsidiaries and other	3,986,982	273,751	3,328,587	228,545
	<b>₩ 4,590,856</b>	<b>₩ 2,567,346</b>	<b>\$ 3,832,740</b>	<b>\$ 2,143,383</b>

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	Receivables	Payables	Receivables	Payables
Hyundai Motor Company	₩ 79,526	₩ 104,465	\$ 66,393	\$ 87,214
Hyundai MOBIS	111,345	137,978	92,958	115,193
Hyundai Hysco Co., Ltd.	-	16,788	-	14,016
Hyundai Powertek Co., Ltd.	1,515	26,902	1,265	22,460
Dymos Inc.	48	5,715	40	4,771
WIA Corporation	7,203	93,340	6,014	77,926
TRW Steering Co., Ltd.	-	10,918	-	9,115
Bontec Co., Ltd.	3,184	21,743	2,658	18,152
Autoever Systems Co., Ltd.	-	8,706	-	7,268
KEFICO Corporation	151	7,599	126	6,344
Hankook Logitech Co., Ltd.	13	11,091	11	9,259
Overseas subsidiaries and other	88,746	18,241	74,091	15,229
	<b>₩ 291,731</b>	<b>₩ 463,486</b>	<b>\$ 243,556</b>	<b>\$ 386,947</b>

# NOTES TO NON - CONSOLIDATED FINANCIAL STATEMENTS

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## 23. SELLING AND ADMINISTRATIVE EXPENSES :

Selling and administrative expenses in 2003 and 2002 are as follows

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Salaries and wages	₩ 409,995	₩ 394,158	\$ 342,290	\$ 329,068
Sales promotion	213,924	264,175	178,597	220,550
Travel	14,243	14,473	11,891	12,083
Communications	9,494	9,880	7,926	8,248
Utilities	7,445	7,422	6,216	6,196
Taxes and dues	6,447	7,688	5,382	6,418
Rent	13,256	10,269	11,067	8,573
Depreciation and amortization	29,034	27,680	24,239	23,109
Repairs and maintenance	3,602	3,136	3,007	2,618
Advertising	94,051	90,954	78,520	75,934
Freight	31,537	40,343	26,329	33,681
Supplies and stationery	3,282	5,353	2,740	4,469
Commissions and fees	115,589	91,067	96,501	76,029
Education and training	6,654	6,177	5,555	5,157
Ordinary research and development	126,799	114,348	105,860	95,465
Overseas marketing	83,270	91,269	69,519	76,197
Export expenses	357,021	308,003	298,064	257,141
Warranty	412,560	427,013	344,431	356,498
Miscellaneous	5,160	4,820	4,310	4,026
	<b>₩ 1,943,363</b>	<b>₩ 1,918,228</b>	<b>\$ 1,622,444</b>	<b>\$ 1,601,460</b>

## 24. GEOGRAPHIC SEGMENT INFORMATION :

The following is a summary of sales by geographic area in 2003 and 2002 :

	Korean won (in millions)		U.S. dollars (Note 2) (in thousands)	
	2003	2002	2003	2002
Domestic sales	₩ 5,126,358	₩ 6,304,394	\$ 4,279,811	\$ 5,263,311
Export sales				
North America	3,731,397	3,344,308	3,115,209	2,792,042
Middle and south America	320,788	363,486	267,814	303,461
Europe	2,145,117	1,071,728	1,790,881	894,747
Other	1,516,221	1,074,197	1,265,840	896,808
	<b>7,713,523</b>	<b>5,853,719</b>	<b>6,439,744</b>	<b>4,887,058</b>
	<b>₩ 12,839,881</b>	<b>₩ 12,158,113</b>	<b>\$ 10,719,555</b>	<b>\$ 10,150,369</b>

## 25. THE ACTUAL APPROVAL OF THE FINANCIAL STATEMENTS :

The 2003 financial statements of the Company, which will be submitted to the shareholders' meeting, are scheduled to be approved by the Board of Directors on February 20, 2004.

## 26. SUMMARY OF RESULTS OF OPERATIONS FOR THE LAST QUARTER :

Results of operations for the last quarters of 2003 and 2002 are as follows.

	Korean won (in millions, except per share amount)		U.S. dollars (Note 2) (in thousands, except per share amount)	
	2003	2002	2003	2002
Sales	₩ 3,938,214	₩ 3,701,403	\$ 3,287,873	\$ 3,090,168
Gross profit	887,262	795,704	740,743	664,305
Operating income	402,310	309,986	335,874	258,796
Ordinary income	335,894	360,224	280,426	300,738
Net income	290,748	292,826	242,735	244,470
Ordinary income per common share	812	796	678	665
Earnings per common share	812	796	678	665

(Units, Korean won in millions)

	2003	2002	2001	2000	1999
<b>Sales Volume</b>	<b>858,697</b>	<b>894,268</b>	<b>899,788</b>	<b>856,045</b>	<b>769,641</b>
Domestic	319,795	444,444	411,321	408,378	300,998
Export	538,902	449,824	488,467	447,667	468,643
<b>Revenue</b>	<b>12,839,881</b>	<b>12,158,113</b>	<b>11,129,204</b>	<b>9,744,843</b>	<b>7,930,638</b>
Domestic	5,126,358	6,304,394	5,146,620	4,996,026	4,196,565
Export	7,713,523	5,853,719	5,982,584	4,748,817	3,734,073
<b>Operating Income</b>	<b>812,440</b>	<b>658,493</b>	<b>522,241</b>	<b>353,127</b>	<b>48,847</b>
<b>Ordinary Income</b>	<b>853,599</b>	<b>801,310</b>	<b>424,151</b>	<b>369,713</b>	<b>227,863</b>
<b>Net Income</b>	<b>705,423</b>	<b>641,379</b>	<b>552,235</b>	<b>330,704</b>	<b>135,745</b>
<b>Total Assets</b>	<b>11,211,132</b>	<b>9,112,648</b>	<b>8,438,466</b>	<b>8,169,281</b>	<b>7,681,295</b>
Current Assets	3,251,294	2,921,333	2,419,877	2,542,022	2,374,999
Non-current Assets	7,959,838	6,191,315	6,018,589	5,627,259	5,306,296
<b>Total Liabilities</b>	<b>5,868,953</b>	<b>5,018,964</b>	<b>5,045,450</b>	<b>5,107,764</b>	<b>4,584,082</b>
Current Liabilities	3,839,030	2,679,543	2,540,899	2,601,221	2,371,448
Long-term Liabilities	2,029,923	2,339,421	2,504,551	2,506,543	2,212,634
<b>Total Shareholders' equity</b>	<b>5,342,179</b>	<b>4,093,684</b>	<b>3,393,016</b>	<b>3,061,517</b>	<b>3,097,213</b>
Capital Stock	1,848,652	1,848,652	1,847,987	2,247,987	2,247,273
Capital Surplus	1,700,956	1,699,924	1,699,924	1,920,913	1,921,058
Retained Earnings	841,078	316,427	(-)324,952	(-)783,887	(-)1,044,503
<b>Net Operating</b>	<b>1,457,333</b>	<b>2,105,670</b>	<b>1,162,165</b>	<b>422,713</b>	<b>(-)429,972</b>
<b>Net Investment</b>	<b>(-)1,227,074</b>	<b>(-)1,101,776</b>	<b>(-)835,164</b>	<b>(-)383,627</b>	<b>(-)874,989</b>
<b>Net Financing</b>	<b>444,663</b>	<b>(-)491,004</b>	<b>(-)107,785</b>	<b>(-)20,800</b>	<b>1,136,936</b>
<b>Change in Cash</b>	<b>674,922</b>	<b>512,890</b>	<b>219,216</b>	<b>18,286</b>	<b>(-)152,074</b>



**1. Mong - koo Chung**

- Graduated from Department of Industrial Management, Hanyang University
- Received honorary Ph.D. degree in Humane Studies from Central Connecticut State University
- A professor emeritus of business administration at Qinghua University, China
- Received honorary Ph.D. degree in business administration from Mongol National University
- Vice Chairman for FKI(Federation of Korean Industries)
- Received Prize for Distinguished Contribution to Automotive Industry from Automotive Hall of Fame of the U.S. (2001)
- Currently, Representative Director & Chairman for Kia Motors Co., Ltd.

**2. Kook - Jin Yoon**

- Graduated from Department of Public Administration of Yonsei University
- Joined Hyundai Motors. (1969)
- Became a deputy director at the Planning Office of Hyundai Motors. (1987)
- Became Managing Director in charge of personnel affairs at Hyundai Motors. (1992)
- Became Vice President, the Customer Service Office at Hyundai Motors. (1997)
- Became Head of Managerial Support Headquarters, Kia Motors. (1999)
- Promoted to Vice President in charge of managerial support. (1999)
- Currently, Kia Motors President & CEO

**3. Eui - Sun Chung**

- Graduated from Korea University, Department of Business Administration
- Obtained Master's Degree in Business Administration at the University of San Francisco

- Itochu Corporation, New York, USA
- Hyundai Motor Domestic Sales Division Deputy Head
- Hyundai Motor/Kia Motors After - Sales Division Deputy Head
- Currently, Hyundai Motor/Kia Motors Planning Division Deputy Head Kia Motors Planning Office Head

**4. Tae - Hwan Koo**

- Graduated from Department of Business Administration, Yonsei University.
- Hyundai Mobis Trasure's Group General Manager.(1995)
- KIA Motors. Co., Ltd. Finance Management Team. Director (2001)
- Currently, Head of Treasury Group at Kia Motors Corp.

**5. Yul Choi**

- Graduated from Graduate School of Mass Communication, Korea University
- Graduated from Graduate School of Journalism & Mass Communication, Yonsei University
- First Co - Chairman of Korea Environmental Social Organization Council
- Co - Representative for Citizen's Coalition for General Election
- An outside director at Samsung SDI Co., Ltd.
- Director General for Korean Federation for Environmental Movement
- Currently, Co - Representative for Solidarity for Citizens and Social Organizations
- Co Chairman of Korean Federation for Environmental Movement
- Executive Director of Environment Foundation

**6. Jong - Am Chung**

- Graduated from Department of Business Administration, Yonsei University
- Received MBA degree from Illinois State

University

- Received Ph.D. degree in accounting from Yonsei University
- Treasurer for Yonsei University
- Dean of Graduate School of Business Administration, Yonsei University
- President of Korea Accounting Association
- President of Korean Academic Society of Business Administration
- Dean of College of Business & Economics
- Professor of Business Administration at Yonsei University

**7. Dong - Sung Cho**

- Graduated from Department of Business Administration, Seoul National University
- Received MBA degree from Bowling Green University
- Received Ph.D. in business administration from Harvard University
- Regional Chairperson of Academy of International Business
- President of 21st Century Academy
- Chairman of Strategic Management Society
- An outside director at Dacom Dean of School of International and Area Studies, Seoul National University
- Dean of College of Business Administration, Seoul National University
- Professor of Business Administration at Seoul National University

**8. Jong - Chang Kim**

- Graduated from Department of Business Administration, Seoul National University
- President of Tax Officials Training Center
- Head of Seoul Regional Tax Office
- Currently, Representative of Kim Jong - chang Tax/Accounting Office



1944



Since its foundation in 1944, Kia Motors has devoted itself for more than half a century to the sole purpose of personal mobility. Kia's product development history extends from Korea's first domestically produced bicycle through two-wheel motorbikes, three-wheel vehicles, and four-wheel-drive trucks, to the family car, telling a story all its own.

- 1944 \_ Company founded as Kyungsung Precision Industry
- 1952 \_ Company produces first Korean-made bicycle, the Samcheolli model
- 1957 \_ Siheung Plant completed
- 1961 \_ C-100 motorcycle enters production
- 1962 \_ K-360 3-wheel truck introduced



1973

1973 is a watershed in the history of Kia and Korea's automobile history as it marks the opening of the Sohari Plant and the start of mass production. With it Kia introduced the nation's first conveyor-system production line, set up a production structure based on a single continuous process, and produced the first four-wheel trucks and cars to be made in Korea, thus breaking new ground as an all-round vehicle manufacturer.

- 1971 \_ Kia Service Corp. established Titan and Boxer four-wheel trucks enter production
- 1973 \_ Sohari factory built
- 1973 \_ Kia produces first Korean-made gasoline engine (2,000cc)
- 1974 \_ Kia begins production of first Korean-made passenger car, Brisa
- 1975 \_ First export of finished automobile (Brisa pickup)
- 1976 \_ Take-over of Asia Motors Co.
- 1978 \_ Diesel engine enters production
- 1979 \_ Assembly of Peugeot 604 sedan commenced
- 1979 \_ Assembly of Fiat 132 sedan commenced



1980

The boom years for Kia Motors, the 1980s began with landmark events including the assassination of President Park Chung Hee and the second world oil shock. But Kia turned crisis into opportunity as external events were used to spur innovation and the achievement of unprecedented growth through far-reaching cost reductions, technological development, and a bold sales strategy.

- 1980 \_ Bongo Truck small cargo vehicle produced
- 1981 \_ Bongo Coach minibus produced
- 1983 \_ Ceres multipurpose farm truck produced
- 1986 \_ Besta minibus produced
- Kia basketball team formed
- Pride (Festiva) passenger car produced
- First export of Pride model
- Concord mid-size passenger car produced
- 1988 \_ Trade 2.5-ton truck produced
- Rhino 5-ton truck marketed
- Total vehicle production to date reaches 1 million units
- 1989 \_ Capital mid-size passenger car launched



1990

In the 90s, Kia laid down a concrete plan of action centered on a global management strategy. With the construction of the Hwasung Plant, the production system was expanded to an international scale, and by developing its own first new model, Kia gained technological competitiveness in the global market. A change of name from Kia Industries to Kia Motors, along with a new logo, helped bring Kia into the ranks of full-line automobile manufacturers.

- 1990 \_ Asan Bay Plant constructed
- Company name changed to Kia Motors Corp.
- 1991 \_ Sephia compact sedan and Sportage SUV appear in 29th Tokyo Motor Show
- 1992 \_ Sephia and Potentia luxury sedan enter commercial production
- New company headquarters constructed
- Kia Japan Corp. established
- Kia Motors America established
- 1993 \_ Total vehicle production reaches 3 million units Sportage enters commercial production

- Comprehensive vehicle proving ground constructed
- 1994 \_ Kia Motors celebrates 50th anniversary  
Group corporate Identity revised  
Avella (Aspire) enters production  
Sephia and Sportage exported to U.S.A.
- 1995 \_ Cremos (Clarus) mid - size sedan introduced  
Tokyo R&D center opened  
Pregio minibus produced



- 1996 \_ Sephia and Cremos exported to Europe Elan sports roadster produced  
Kia Sihwa Research Center constructed  
Total vehicle production reaches 5 million units
- 1997 \_ Enterprise luxury sedan launched  
Bongo Frontier produced  
Sephia wins China World Rally  
Sephia II produced  
Plant constructed for joint venture in China  
Shuma mid - size sports sedan introduced
- 1998 \_ Carnival minivan produced  
Cremos II mid - size sedan produced  
Frontier Tilting cap 1 - ton truck produced  
Parktown multipurpose 7 - passenger wagon produced  
Total exports to date reach 2 million units
- 1999 \_ Asan Bay Plant renamed to Hwasung Plant  
Kia New Start 2000 event held  
Exhibition of new models,  
Visto compact car, Carstar RV and Millennium Rio produced



## 2000

Kia Motors staged a stunning turnaround after the financial difficulties brought on by the foreign currency crisis of 1997. A company-wide management overhaul following the crisis achieved a complete normalization of management, and in 2001 the company achieved its highest annual profit since its foundation.

Kia is now preparing to join the ranks of the world's top five car manufacturers by 2010.

- 2000 \_ Kia Sportage completes Paris - Dakar Rally  
BI logo introduced to whole range of Kia vehicles in domestic market  
Spectra produced  
Carens 2.0 Di LPG - powered vehicle produced  
Optima mid - size sedan produced  
Retona Cruiser jeep produced  
Sportage wins Baja 2000 Rally



- 2001\_ Carnival II marketed  
Kia receives Korea HR management award (12th)  
Kia wins grand prize in Korea Quality Management Award  
Kia Tigers baseball team formed Full entry into Chinese automobile market
- 2002 \_ Carnival Common Rail marketed  
Sorento luxury SUV marketed  
Kia Q Service enters full operation  
Diesel - powered Carens II marketed  
Cumulative production reaches 10 million units  
First Skill World Cup Competition held  
Regal mid - size sedan marketed  
Company awarded 2002 Value Management Award  
Upgraded compact sedan Rio SF marketed  
Subsidiary companies established in 5 European countries  
Company awarded Grand Prize in Korea Service Quality Award  
Sorento begins exports to overseas market



- 2003 \_ Opirus/Amanti launched  
Main sponsorship agreement signed for Australian Open through 2008.  
X - Trek launched.  
Visto Fuel Mileage Championship held.  
ISO 14401 certification received.  
Kia and Hyundai R&D units merged; ground broken for new Environment Technology Center  
Global environmental management initiative declared.  
2 millionth Bongo van sold.  
Official cars provided for Daegu Universiade.  
Carnival production begun in Malaysia.  
Company participates in 2nd Annual Busan Motor Show.  
Opirus / Amanti launched in North American market.  
Exports break 4 million mark.  
Cerato launched.  
2003 Global Dealer Conference opened in Sydney.  
US\$5 Billion Export Award received on Trade Day.



- 2004 \_ Cerato briefing held at North American International Motor Show.  
Bongo III truck/bus launched.  
1st Dongfeng - Yueda Dealer Convention opened (on Jeju Island).  
Morning / Picanto launched.



### Hyundai Motor

This major Korean automaker exported its first cars (the Pony) in 1976. Hyundai now exports over 1.6 million units a year. Kia Motors and Hyundai Motor are now working together in R&D as well as marketing to claim their place among the world's top five by 2010.

### NGV Tek

Established in October 2000, the firm is developing next-generation automobile technologies in collaboration with universities and research institutes at home and abroad.

### Hyundai Mobis

Hyundai Mobis was initially launched under the name of Hyundai Precision Industry in 1977. This is Korea's largest automotive parts supplier, serving domestic and overseas customers.

### KEPICO Corporation

Hyundai Motor, Robert Bosch Ltd (Germany) and Mitsubishi Electric (Japan), established KEPICO as a joint-venture in 1987 to develop and manufacture automotive engine control systems, automatic transmission control systems and various parts that enhance vehicular safety and comfort.

### Dymos

Dymos is Korea's leading maker of transmissions and automobile axles for commercial vehicles and SUVs. The company also manufactures automatic transmissions for Korean-model electric trains (K1A1), reduction drive units for high-speed electric trains and heavy-duty automobile axles.

### Hyundai - Powertech

Hyundai - Powertech is an automatic transmission manufacturer currently based in the Seosan Industrial Complex. Created in 2001 as a joint-venture firm by Kia Motors and Hyundai Motor, the company started up mass production in August 2001 and is now growing into a major world player working in cooperation with some of the world's leading makers of automatic transmissions.

### INI Steel

This Incheon-based firm specializes in section steel, steel rod, steel rails, stainless steel, rolled steel, heavy equipment and machinery. INI Steel boasts high quality and cost competitiveness and excellent customer services.

### Hyundai Hysco

Hyundai Hysco was founded under the name of Kyung-il Industrial Co., Ltd. in 1975 and has been a domestic leader in steel pipe for the past 30 years. An innovative and aggressive management style and ongoing development efforts are driving the company to the forefront of the Korean steel industry.

### BNG Steel Co.

BNG Steel specializes in stainless steel plates. The company plants in Changwon and Ulsan have an annual output capacity of 23,000 tons and command a 30% share of the domestic market.

### Autoever Systems Co.

Autoever Systems Co. offers the Hyundai Motor Group system management and system integration services as well as information system consulting.

### e - HD.com Inc.

This firm was created in a satellite imaging project conducted by Hyundai Space and Aircraft Co. in April 2000. Equipped with a state-of-the-art satellite image processing system and operation technology, e-HD.com is spurring technology development to provide a full range of image products and related service to the public and private sectors.

### Glovis Co., Ltd

Created in February 2001, Glovis is a total logistics solution provider. The company takes advantage of the logistics know-how of the Hyundai Group and its own worldwide logistics network, which includes e-commerce and a supply chain management system.

### Hyundai Capital Service Inc.

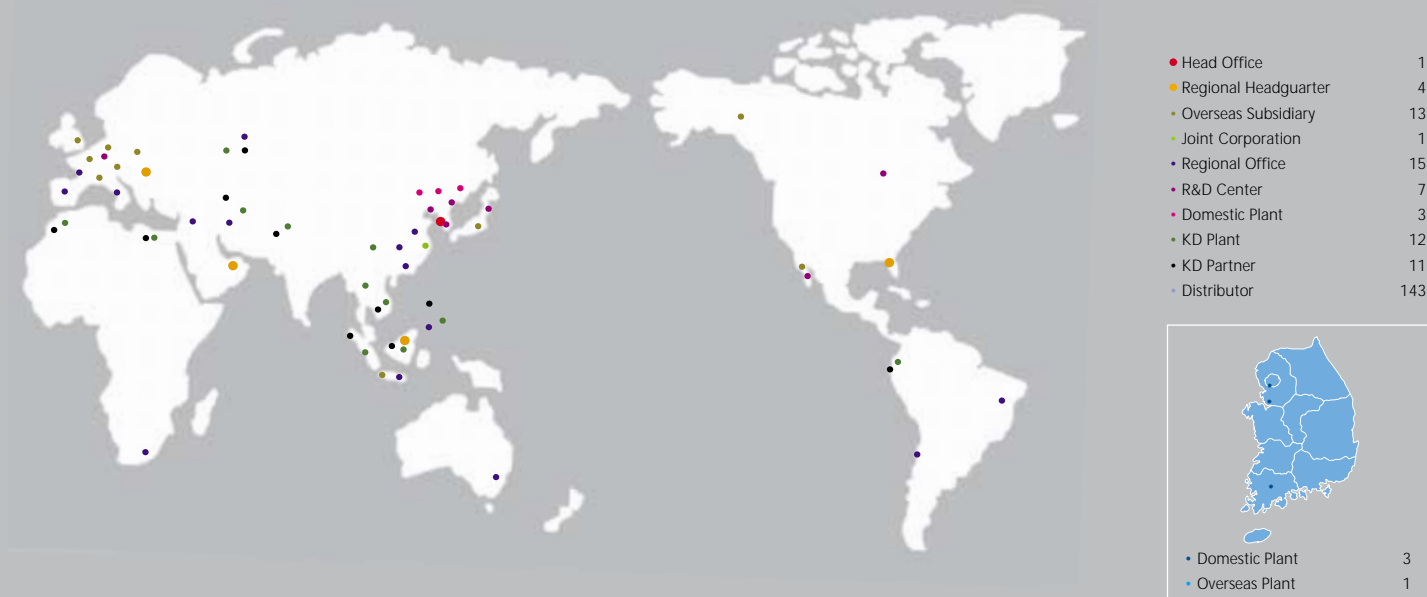
Hyundai Capital Service operates 34 branch offices and 13 service points nationwide, assisting consumers and corporate customers with their financing.

### Amco Corp.

Amco Corp was established in 2002. The company is specialized in build automobile and automotive parts plants.

# With operations in 160 countries around the world, Kia Motors is a true global player

Kia is expanding its global capabilities to answer customer needs around the world.



Sohari Plant  
(Carnival / Sedona, Rio)



Hwasung Plant  
(Sorento, Carens, Opirus/Amanti, Cerato, Optima/Magentis, etc.,)



Gwangju Plant  
(Bongo III, Compact SUV, Military Vehicles, Large Bus, etc.,)





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